

FRANCHISE DISCLOSURE DOCUMENT



HQ MRI Corporation
A Delaware Corporation
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Management Recruiters®

You will operate a Management Recruiters staffing and recruiting business, offering both permanent placement and contract staffing services.

The total investment necessary to begin operation of a Management Recruiters International (“MRI”) franchise is \$44,050 to \$96,090. This includes \$40,000 that must be paid to the franchisor or affiliates.

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 governmental 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 a different format contact our Legal Department at 111 Springhall Drive, Goose Creek, SC 29445 and (843)723-7400 and jdmcannar@hirequest.com.

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, D.C. 20580. You can also visit the FTC’s home page at www.ftc.gov for additional information. Call your state agency or visit your public library or other sources of information on franchising.

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

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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
How much can I earn?	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 Item 20 or Exhibits D1 and D2.
How much will I need to invest?	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.
Does the franchisor have the financial ability to provide support to my business?	Item 21 or Exhibit H includes financial statements. Review these statements carefully.
Is the franchise system stable, growing, or shrinking?	Item 20 summarizes the recent history of the number of company-owned and franchised outlets.
Will my business be the only MRI business in my area?	Item 12 and the “territory” provisions in the franchise agreement describe whether the franchisor and other franchisees can compete with you.
Does the franchisor have a troubled legal history?	Items 3 and 4 tell you whether the franchisor or its management have been involved in material litigation or bankruptcy proceedings.
What’s it like to be an MRI franchisee?	Item 20 or Exhibits D1 and D2 list current and former franchisees. You can contact them to ask about their experiences.
What else should I know?	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 I.

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:

1. **Out-of-State Dispute Resolution.** The franchise agreement requires you to resolve disputes with the franchisor by mediation, arbitration and/or litigation only in South Carolina. Out-of-state mediation, arbitration, or litigation may force you to accept a less favorable settlement for disputes. It may also cost more to mediate, arbitrate, or litigate with the franchisor in South Carolina than in your own state.
2. **Mandatory Minimum Payments.** You must make minimum annual fee and royalty payments, regardless of your sales levels, beginning in the third year of your franchise agreement term. Your inability to make the payments may result in termination of your franchise and loss of your investment.
3. **Short Operating History.** The franchisor is at an early stage of development and has a limited operating history. This franchise is likely to be a riskier investment than a franchise in a system with a longer operating history.
4. **Franchise Brokers.** We use the services of one or more FRANCHISE BROKERS or referral sources to assist us in selling our franchise. A franchise broker or referral source represents us, not you. We pay this person a fee for selling our franchise or referring you to us. You should be sure to do your own investigation of the franchise.

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

ITEM 1: THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS, AND AFFILIATES.....	1
ITEM 2: BUSINESS EXPERIENCE	4
ITEM 3: LITIGATION.....	5
ITEM 4: BANKRUPTCY.....	8
ITEM 5: INITIAL FEES.....	8
ITEM 6: OTHER FEES.....	8
ITEM 7: ESTIMATED INITIAL INVESTMENT	11
ITEM 8: RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES.....	14
ITEM 9: FRANCHISEE’S OBLIGATIONS.....	16
ITEM 10: FINANCING.....	18
ITEM 11: FRANCHISOR’S ASSISTANCE, ADVERTISING, COMPUTER SYSTEMS, AND TRAINING.....	20
ITEM 12: TERRITORY	26
ITEM 13: TRADEMARKS.....	31
ITEM 14: PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION.....	33
ITEM 15: OBLIGATIONS TO PARTICIPATE IN THE ACTUAL OPERATION OF THE FRANCHISE BUSINESS.....	34
ITEM 16: RESTRICTION ON WHAT THE FRANCHISEE MAY SELL	34
ITEM 17: RENEWAL, TERMINATION, TRANSFER, AND DISPUTE RESOLUTION	36
ITEM 18: PUBLIC FIGURES	40
ITEM 19: FINANCIAL PERFORMANCE REPRESENTATIONS.....	40
ITEM 20: OUTLETS AND FRANCHISEE INFORMATION	42
ITEM 21: FINANCIAL STATEMENTS.....	51
ITEM 22: CONTRACTS.....	52
ITEM 23: RECEIPTS	52

LIST OF EXHIBITS

EXHIBIT A:	Management Recruiters Franchise Agreement and Exhibits
EXHIBIT B:	Brand Standards Materials Table of Contents
EXHIBIT C1:	MRI Outlets as of December 31, 2022
EXHIBIT C2:	Former MRI Outlets for the period January 1, 2022 through December 31, 2022
EXHIBIT D:	MRINetwork Code of Conduct
EXHIBIT E:	Sample Release Language
EXHIBIT F:	Financial Statements and Guaranty
EXHIBIT G:	Agents for Service of Process
EXHIBIT H:	State Addenda
EXHIBIT I:	State Effective Dates
EXHIBIT J:	Receipts

APPLICABLE STATE LAW MIGHT REQUIRE ADDITIONAL DISCLOSURES RELATED TO THE INFORMATION CONTAINED IN THIS DISCLOSURE DOCUMENT AND MIGHT REQUIRE A RIDER TO THE FRANCHISE AGREEMENT. THESE ADDITIONAL DISCLOSURES AND RIDERS, IF ANY, APPEAR IN EXHIBIT H.

ITEM 1: THE FRANCHISOR, AND ANY PARENTS, PREDECESSORS AND AFFILIATES

To simplify the language in this disclosure document, “MRI” and “we” means HQ MRI Corporation, the “Franchisor” and our affiliates as may be appropriate. “You,” “Franchisee,” or “Member” means the person who buys an MRINetwork franchise whether an individual, corporation, partnership, or limited liability company.

HQ MRI Corporation was formed on January 13, 2021 (HQ MRI Corporation was originally known as HQ Snelling Corporation) and began offering Management Recruiters franchises on December 12, 2022, following its acquisition of the MRI brand as described below. HQ MRI Corporation is a wholly owned subsidiary of HireQuest, Inc. (NASDAQ: HQI). Our affiliate, Hire Quest L.L.C., began offering staffing franchises under the name Acrux (n/k/a HireQuest) and Trojan Labor (n/k/a HireQuest Direct) in 2003. See below for more information on our parent corporation and affiliates. HQ MRI Corporation has not previously offered any other franchise for sale.

On December 12, 2022, HQ MRI Corporation acquired certain assets of the MRINetwork brand (mrinetwork.com) including MRINetwork franchise agreements, trademarks, domains, intellectual property, and other certain contracts (the “MRI Assets”) pursuant to a transaction with MRINetwork Holdings, LLC. As a result of this transaction, HQ MRI Corporation became the franchisor for MRI Network franchisees and many MRI franchise support staff members and leadership joined our organization and continue in their preexisting roles.

We do business under our corporate names, “MRINetwork,” “Management Recruiters,” “MRI,” “MRI Contract Staffing,” and the associated logos and designs which have been registered on the Principal Register of the United States Patent and Trademark Office and any other service marks, trademarks and/or logos we designate (the names and logos will be referred to as the “Marks”). Occasionally, and particularly in the period following an acquisition before we have found a franchisee, we may own offices similar to the business you will operate. This is not our intention, and we transition these offices to franchisees as soon as is commercially reasonable.

On February 28, 2023, HQ MRI Corporation acquired the assets of SearchPath Global, Inc. (“SearchPath”), a franchisor of over 40 permanent placement franchisees across the country. SearchPath does business under the name, “SearchPath” and associated logos and designs which have been registered on the Principal Register of the United States Patent and Trademark Office. The operations of SearchPath franchisees are similar in character to the operations of may MRI franchisees and may be competitive with your business.

HQ MRI Corporation only offers franchises which operate under the marks listed above.

The principal addresses for our agents for service of process are shown on Exhibit G.

Our Parent, Predecessors, and Affiliates

Parent

HireQuest, Inc., HQ MRI Corporation's parent corporation, was formed following a July 2019 merger (the "Merger") between Hire Quest Holdings, LLC, and a subsidiary of Command Center, Inc., a publicly-traded staffing-business corporation, formerly based in Lakewood, Colorado (Nasdaq: CCNI). 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. As a wholly-owned subsidiary of HireQuest, Inc., Franchisor is a part of a publicly traded entity on the Nasdaq Capital Market (Nasdaq: HQI).

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 HIRE QUEST® staffing center and HIREQUEST DIRECT® franchises. Some Command Center, Inc. branch offices were consolidated and other operations were closed. Finally, a small number of Command Center, Inc. offices in California were sold to an unrelated third party.

Our Affiliate, Hire Quest, L.L.C., began offering ACRUX® and TROJAN LABOR® franchises (later known as HIRE QUEST® and HIREQUEST DIRECT® franchises) 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®. 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. The HireQuest Direct and HireQuest (now d/b/a Snelling) brands are now owned by HQ Franchising Corporation, our Affiliate.

MRI Franchise Predecessors

HQ MRI Corporation purchased the MRINetwork Assets on December 12, 2022 (the "2022 HQ Acquisition"). Prior to the 2022 HQ Acquisition, Management Recruiters International, Inc., was the franchisor for the MRINetwork brand. Prior to the 2022 HQ Acquisition, the MRI assets were owned by MRINetwork Holdings, LLC and Management Recruiters International, Inc. pursuant to a May 2019 transaction by and between MRINetwork Holdings, LLC, and Management Recruiters International, Inc. Management Recruiters International, Inc., was previously a wholly owned subsidiary of CDI Holding Company, LLC, a Delaware corporation, formed on December 15, 2017 which maintained its principal place of business at 1735 Market Street, Suite 200, Philadelphia, Pennsylvania 19103. Management Recruiters International, Inc. was previously owned by CDI Corporation, a Delaware corporation formed on January 30, 1974, and which maintained its principal place of business at 1735 Market Street, Suite 200, Philadelphia, Pennsylvania 19103. On September 13, 2017, CDI Corporation was purchased by AE Industrial Partners, LLC, which formed CDI Holding Company, LLC on December 15, 2017. Prior to being purchased by CDI Corporation, Management Recruiters International, Inc., was founded and owned by Alan R. Schoenberg who began in the personnel placement business in 1957 and began selling Management Recruiters franchises in 1965 and Sales Consultants franchises in 1966.

Our Affiliates

Our affiliate, HQ Franchising Corporation, was incorporated in Delaware on June 7, 2019, and is a wholly owned subsidiary of HireQuest, Inc. HQ Franchising Corporation offers franchises in the temporary staffing/temp to perm/perm placement industry under the trademarks Snelling, HireQuest, HireQuest Direct, and TradeCorp. HQ Franchising Corporation franchisees also offer industry-specific services under the trade names HireQuest Health and DriverQuest.

The Franchise Offered

HQ MRI Corporation offers franchises for the right to operate a MRINetwork recruitment and placement business for direct hire and contract staffing placement services specializing in the field of staffing and recruiting in businesses under NAICS codes 561311 (Employment Placement Agencies), 561312 (Executive Search Services), and/or 561320 (Temporary Help Services) using the MRINetwork system and trademarks (the “Franchised Business”). The Franchised Business is operated under the marks and standards and know-how (the “System”). The distinguishing characteristics of the System include, but are not limited to, our training methods, sales techniques and materials, control systems, quality control, training and ongoing operational assistance, advertising, and promotional programs, and related benefits for use by all members, all of which may be changed, improved, or further developed by us at any time. MRI has historically and may in the future, also offer franchises to established firms who have operated a franchised business-like business under a separate franchise disclosure document and on separate terms.

Market and Competition

The market for your MRINetwork business will be companies and other organizations that hire administrative, technical, managerial, professional, and sales personnel who are seeking employees.

The market for staffing and recruiting businesses is well developed and highly competitive throughout the United States and abroad. You will compete with both independent operators of similar businesses, some of whom belong to cooperative networks of offices, franchisees of other recruitment systems, including without limitation, SearchPath, and other MRINetwork members.

Industry-Specific Regulations

You must comply with all local, state, and federal laws and regulations that apply to the operation of your MRINetwork business including health, safety, insurance, discrimination, employment, and sexual harassment laws.

In some states, you may be required to obtain an employment agency license or registration for the operation of direct hire or interim personnel placement services. Most of these laws and regulations relate to companies that charge fees to applicants for employment services and have an exemption for employer paid fee businesses.

The Federal civil rights laws, including the Civil Rights Act of 1964 (Title VII), the Age Discrimination in Employment Act (ADEA), the Americans with Disabilities Act (ADA), and other laws and regulations prohibit unlawful discrimination in classifying and referring applicants for employment. Many state human rights laws have similar regulations.

The Patient Protection and Affordable Care Act (ACA) or any replacement health care law, will apply to your obligations to provide health insurance for your employees.

In addition, the Fair Labor Standards Act (FLSA), federal, state, and municipal minimum wage laws, the Occupational Safety and Health, and Immigration laws will apply to your business.

The Federal Immigration Reform and Control Act (IRCA) prohibits companies in our industry from knowingly referring an illegal alien for employment in the United States.

The Federal Fair Credit Reporting Act (FCRA) has regulations on reference checking applicants for employment.

The General Data Protection Regulation (GDPR) and the California Consumer Privacy Act (CCPA) regulate the storing and use of personally identifiable information both into and out of the European Union and California. Other states may institute laws or regulations regarding the storing and use of personally identifiable information. You will need to ensure that your computer and filing systems are compliant with these regulations and laws.

Some states and municipalities have passed laws that prohibit inquiries about criminal convictions on job applications and prohibit discrimination based on criminal records.

A growing number of states, counties, and municipalities have passed laws that prohibit inquiries about job applicants' salary histories.

You should investigate whether there are any federal, state, or local regulations or requirements that may apply in the state in which you intend to conduct business. You are responsible for obtaining all licenses and permits which may be required for the operation of your business.

If you are a corporation, partnership or other entity, our Franchise Agreement will apply to your owners, officers, and directors.

While we have attempted to list laws that we believe to be most applicable to your business, the above is by no means an exhaustive list, and you are always responsible for compliance with all laws in the jurisdictions in which you operate.

ITEM 2: BUSINESS EXPERIENCE

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 2014-2019.

Chief Financial Officer: Steven Crane

Mr. Crane joined HireQuest, Inc., as its Chief Financial Officer in November 2023. From 2014 until joining HireQuest, Mr. Crane founded and operated TouchPoint Search, LLC, (an MRI Franchise) a consulting and recruiting business focused on filling finance and accounting related positions, as well as providing interim finance and accounting services in Charleston, South Carolina. Mr. Crane also previously served as Chief Financial Officer of Interactive Data Corporation (headquartered in Bedford, MA), and ModusLink Global Solutions (headquartered in Smyrna, TN).

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.

Vice President, MRI: Nancy Halverson

As of the December 12, 2022 acquisition, Ms. Halverson became the Vice President for Hire Quest's MRI Division. Prior to this, Ms. Halverson served as Management Recruiters International's Senior Vice President, Global Operations since May 2019. Previously she served as General Manager from February 2017 to May 2019. Prior to that she served as Vice President of Global Operations from January 2013 to February 2017. Previously, she oversaw our Learning and Talent Development, New Office Development, US and International Operations, and Franchise Sales Teams. Ms. Halverson joined MRINetwork in March 2008 as the Vice President of Learning and Development and was appointed Senior Vice President, Learning and Development in November 2009 and Vice President of Operations in 2011.

Vice President of Technology, MRI: Paul Christian

Mr. Christian joined Management Recruiters International, Inc. in May 2021 as the Senior Director of Technology in Delray Beach, Florida. Following the 2022 HQ Acquisition, Mr. Christian continues with HQ MRI Corporation as MRI VP of Technology. From September 2018 through April 2021, he was the Director of Technology for MD Now Urgent Care Centers in West Palm Beach, Florida. From May 2017 to present, he is the President/Chief Technology Officer of geex.Online, Inc. in Davie, Florida. From April 2009 through May 2017, he was the General Manager and Chief Information Officer for Key Largo Wastewater Treatment District in Key Largo, Florida.

Senior Director, Contract Staffing Sales and Global Accounts, MRI: Tim Ozier

Mr. Ozier was hired as MRI's Senior Director, Contract Staffing Sales in August 2018 in Philadelphia, Pennsylvania (later Delray Beach, FL) and remains in this role following the 2022 HQ Acquisition with HQ MRI Corporation. He worked for CDI Corporation as an Account Executive from October 2014 to May 2016 in San Jose, California, and as the Client Services Director for Manpower Group from June 2016 through October 2017 in San Jose, California.

Senior Director Vendor Management, MRI: Beth Turner

Ms. Turner has worked as MRI's Senior Director, Vendor Management, since June 2015 in Philadelphia, Pennsylvania (Delray Beach, Florida). Following the 2022 HQ Acquisition, Ms. Turner continues in this role with HQ MRI Corporation.

Director of Franchise Sales, MRI: Patrick Rozmus

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 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

Except for the actions described below, there is no litigation that must be disclosed in this Item.

Pending Actions

None.

Concluded Actions

HQ MRI Corporation has never been a party to any action which is disclosable under this item.

The predecessor franchisor, Management Recruiters International, Inc., from whom we acquired the MRINetwork assets, was a party to the following disclosable legal actions, all of which have concluded:

Management Recruiters International, Inc. v. Management Recruiters of Tampa-North, Inc., Gary A. King, and Kelly King, Docket No. V 1627-T-33JSS, filed July 15, 2020 in the United States District Court Middle District of Florida, Tampa Division alleging breach of contract for failure to pay royalties and national advertising fund fees, breach of a Promissory Note, breach of the in-term covenant not to compete, trademark infringement, and tortious interference with contract against Kelly King. Management Recruiters International, Inc. sought declaratory judgment stating that the franchisee had violated the franchise agreement and promissory note, and sought an injunction to cease unlawful competition, lost future royalties and advertising fees, damages for infringement of the MRI trademarks, damages for breach of contract, costs, and attorneys' fees.

On July 30, 2020, Gary A. King filed a voluntary petition for relief under Chapter 7 of the US Bankruptcy Code. Pursuant to 11 USC §362(a) the Court stayed the case pending the outcome of the bankruptcy. MRI objected to the stay as to the other defendants, Kelly A. King and Management Recruiters of Tampa-North, Inc. On August 24, 2020, the Court stayed and administratively closed the matter in its entirety pending the outcome of Gary A. King's bankruptcy proceedings. Gary A. King's debts were discharged in bankruptcy and the matter closed on March 4, 2021.

On May 3, 2021, the remaining Parties, MRI and Kelly A. King and Management Recruiters of Tampa-North, Inc. entered into a settlement wherein the Defendants made payment of \$6,500 to MRI and the lawsuit was dismissed on May 6, 2021.

Management Recruiters International, Inc. v. Peter Rouillard, et al., Docket No. CV 17 885383, filed December 26, 2017 in the Court of Common Pleas, Cuyahoga County, Ohio alleging breach of contract for failure to pay royalties and national advertising fund fees. On October 22, 2018, Rouillard filed a counterclaim alleging breach of contract/constructive termination, unjust enrichment, fraudulent inducement, and defamation and stated injuries in excess of \$25,000 for each count, along with declaratory judgment for unconscionability and liquidated damages.

On September 1, 2019, the parties entered into a written settlement agreement whereby Rouillard agreed to make payment to MRI a sum equal to \$75,000, execute a new Franchise Agreement for a term of three years, and make supplemental royalty payments to cover costs of being in an exclusive territory of another member. The parties agreed not to disparage one another, to mutually release one another from all claims known and unknown, and to keep the settlement terms confidential, except as required by applicable law.

Gre-ter Enterprises, Inc. v. Management Recruiters International, Inc., et al, Docket No. 29D-1709-PL-008320, filed September 7, 2017 in the Hamilton County, Indiana Superior Court. Gre-ter Enterprises, Inc. (“Gre-Ter”), an entity having three franchise agreements with MRI dating to August 17, 1994, brought claims alleging MRI breached its franchise agreements, violated Indiana franchise laws by improperly using monies from the Marketing and Public Relations Fund, failed to provide an accounting of the Marketing and Public Relations Fund and improperly allowed members in Gre-ter’s territory (“encroachment”). Gre-ter also alleged that MRI failed to comply with Indiana’s franchise registration and disclosure laws, and with the Indiana Deceptive Franchise Practices Act. The plaintiff sought compensatory, statutory, and punitive damages, and attorneys’ fees and costs.

The matter was removed to the United States District Court for the Southern District of Indiana, Case No. 1:17-cv-03554-SEB-DLP, and MRI filed a Motion to Dismiss all counts. In June 2018, the Court dismissed all of Gre-Ter’s claims except for the encroachment claim. MRI filed a counterclaim in July 2018 alleging breach of contract, requesting an accounting for Gre-ter’s failure to pay royalties and advertising fees and an order that Gre-Ter submit monthly reports to MRI as required by the Franchise Agreement. In January 2019, MRI filed an amended counterclaim alleging additional breaches of contract and a request for accounting. On January 31, 2019, MRI and Gre-ter entered into court ordered mediation and came to a settlement, which was read into the record before the Court.

On March 20, 2019 the parties entered into a written settlement agreement whereby Gre-ter agreed: 1. to make payment of \$300,000 to MRI in full settlement of all of MRI’s claims; 2. to consolidate three franchise agreements into one franchise agreement; 3. to eliminate all exclusive territorial rights and grant Gre-Ter the right to operate from a single office in Carmel, Indiana; 4. to terminate MRI’s duty to pay Gre-Ter supplemental royalties for third party members located within its former exclusive territory; and 5. to resume operation and performance of all obligations under the amended franchise agreement. MRI agreed to 1. amend Gre-ter’s prior tiered royalty structure of to a flat rate royalty structure of 3%; and 2. to provide Gre-ter an early termination option upon 90 days’ notice and payment by Gre-Ter of a material termination fee equal to average monthly royalties multiplied by the remaining term of the agreement. The parties agreed not to disparage each other, to mutually release one another, and to keep the settlement terms confidential, except as required by applicable law.

ITEM 4: BANKRUPTCY

No bankruptcy information is required to be disclosed in this Item.

ITEM 5: INITIAL FEES

You must pay to us an initial franchise fee (the “Initial Franchise Fee”) when you sign the Franchise Agreement. The Initial Franchise Fee is \$40,000. This Initial Franchise Fee will be paid by you in cash contemporaneously with the execution of your Franchise Agreement. In Franchisor’s sole discretion, certain qualified franchisees may be allowed to pay the Initial Franchise Fee via a temporary deduction from the share we pay you pursuant to the franchise agreement equal to 2% of all Franchise Receivables (as that term is defined in the Franchise Agreement) until the entire Initial Franchise Fee is fully recovered.

We offer a Veteran’s discount to both honorably discharged veterans of the United States armed forces and to the spouses of active-duty United States military members. In these instances, the Initial Franchise Fee is discounted to \$32,000. A copy of your DD214 or evidence of current active-duty status will be required to receive this discount.

If your purchase is as a result of a Transfer (as defined in the Franchise Agreement), you must pay a Jump Start Fee of \$5,000 to cover the costs of training and other administrative functions, but you will not pay an Initial Franchise Fee.

If this is a renewal of an existing MRI Franchise Agreement, you will not pay an Initial Franchise Fee.

All Initial Franchise Fees and Jump Start Fees are fully earned by us when you sign the franchise agreement. Fees paid are not refundable under any circumstances.

ITEM 6: OTHER FEES

Type of fee	Amount	Date Due	Remarks
Recruiter Continuing Fee	<p>The royalty fee is: 9% on the first 500,000 of Net Cash In;</p> <p>7% on Net Cash In from \$500,001 to \$1,000,000;</p> <p>5% on Net Cash In from \$1,000,001 to \$2,000,000; and</p> <p>3% on Net Cash In that exceeds \$2,000,000. See Note 1.</p>	Payable weekly on Wednesday following collection of Net Cash In. See Note 2.	Net Cash In means the total amount of all accounts receivable which are generated by the Recruiter Services which are collected less only sales and use taxes collected. See Note 2.
Contract Staffing Continuing Fee	<p>The royalty fee is:</p> <p>The sum of 4.5% of Contract Staffing Payroll plus 18% of the Gross Margin for temporary and contract employee staffing. See Note 1.</p>	Weekly on Wednesday. See Note 3.	Contract Staffing Continuing Fees are deducted from your Gross Margin as part of the weekly calculation of Franchisee's Share. See Note 3.
Overdue Account Fee	See Note 4.	See Note 4.	See Note 4.
Minimum Annual Royalty	<p>\$12,000 less all Continuing Fees paid in the immediately preceding calendar year. See Note 5.</p>	Beginning on the first full calendar year after the Effective Date. If the franchise agreement is a renewal agreement, the Minimum Annual Royalty begins immediately.	If the minimum annual royalty is not met, you will be required to pay the difference in royalty between what you paid and the minimum annual royalty.
Marketing and Public Relations Fee	0.5% of Gross Funds. See Note 6.	Weekly on Wednesday. See Note 6.	See Note 6.
Back Office Services Fee	\$950 per month. See Note 7.	Monthly. See Note 7.	See Note 7.
Late Fee	5% per month of the late payment. See Note 8.	Upon your non-payment of amounts due under the Franchise Agreement	See Note 8.
Overdue Report Fee	\$50 per week.	Upon Demand	If any report due under the

			Franchise Agreement is late.
Interest	Lesser of 1.5% per month or maximum amount allowed by law.	Upon Demand	Payable on overdue amounts, beginning with first day of following month.
Additional Optional Training Fees	Varies. See Note 9.	Prior to provision of services. See Note 9.	Payable upon registration. See Note 9.
National Vendor Accounts	Varies based on services purchased	As incurred	Certain third-party suppliers of service provide discounts to MRINetwork members only if MRI contracts with them directly for the services. If you choose to purchase these services, MRI will collect the fees directly from you and make payment to the third-party suppliers. These suppliers change regularly.
Annual Owners' Meeting	Varies. See Note 10.	When enrolled	The meeting is mandatory. The registration fee will be assessed if you don't attend. The fee will be reasonably related to the cost of attendance at the annual meeting. See Note 10.
Transfer Fee	\$5,000.	At time of Transfer	We don't charge a fee for transfer to corporations, partnerships or companies formed by you for the convenience of ownership or for transfers made to

			your Family Members.
Jump Start Fee	\$5,000.	When you enter a Franchise Agreement as a result of a Transfer.	Covers the costs of training and indoctrination into the MRI System.
Non-Compliance Termination Fee	\$15,000.	Upon Termination if within first nine (9) months following the Effective Date.	See Note 11.
Audit	Cost of Audit. See Note 12.	Upon Demand	Payable only if the audit reveals underreporting.
Indemnification	Will vary under circumstances	Upon Demand	You must reimburse us for all losses and expenses resulting from certain of your acts or omissions.
Collection Fees	See Note 13.	See Note 13.	See Note 13.
Direct Deposit Service Fee	\$25 per month.	Monthly	You must pay this fee for processing direct deposits for you.
Security Deposit	1% of Gross Funds until amount equals \$15,000.	Weekly on Wednesday. See Note 2 and Note 3.	See Note 14.
Workers' Compensation Risk Fee	\$200 per day.	As incurred. To be paid weekly on Wednesday.	The fee is imposed for each day that an injured worker is not provided appropriate light duty work.
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 and contract employees furnished by the Franchise Business during the Term.
New Office Training	Costs of travel, room, and board to attend training.	Prior to opening office.	

All fees and expenses described in this Item 6 are nonrefundable and are generally uniformly imposed. Except as otherwise indicated in the preceding chart, we impose all fees and expenses listed and you must pay them to us.

Notes:

1. Beginning when you open your initial Location of the Franchise Business, and for the entire term of the Franchise Agreement, you must pay us Continuing Fees. These Continuing Fees are of two types: The Recruiter Continuing Fee and the Contract Staffing Continuing Fee.

The Recruiter Continuing Fee is a fee on all Net Cash In in the following amounts:

- Nine percent (9%) on the first five hundred thousand dollars (\$500,000.00) of Net Cash In;
- Seven percent (7%) on Net Cash In from five hundred thousand and one dollars (\$500,001.00) to one million dollars (\$1,000,000.00);
- Five percent (5%) on Net Cash In from one million and one dollars (\$1,000,001.00) to two million dollars (\$2,000,000.00);
- Three percent (3%) on Net Cash In that exceeds two million and one dollars (\$2,000,001.00).

The Contract Staffing Continuing Fee is an amount equal to the sum of 4.5% of Contract Staffing Payroll plus 18% of the Gross Margin for temporary and contract employee staffing of the Franchise Business. Contract Staffing Payroll means any gross wages funded by Hire Quest, L.L.C. or its affiliates on your behalf with respect to the temporary and contract employees.

2. The Recruiter Continuing Fees are deducted from your Net Cash In account as part of the weekly calculation of the Franchisee's Recruiter Share. Net Cash In means sums billed by Franchisor to customers of the Franchise Business on account of Recruiter Services which are actually collected less only sales and use taxes collected for payment to the relevant taxing authority. Net Cash In also includes all receipts of your receipts from any business in which you engage in violation of any obligation in the Franchise Agreement. As long as your Franchise Agreement remains in effect and you are not in default, we will pay you your Franchisee's Recruiter Share on the Wednesday following the weekly Accounting Period (which ends on a Sunday) during which the Franchisor actually collects the cash. If that Wednesday is a banking holiday, then we will pay to you your Franchisee's Recruiter Share on the next business banking day. See

Section 5 and Section 6 of the Franchise Agreement for a detailed discussion of the calculation of your Franchisee's Recruiter Share

3. The Contract Staffing Continuing Fees are deducted from your Gross Margin account as part of the weekly calculation of Franchisee's Contract Staffing Share. Gross Margin means sums billed by Franchisor to customers of the Franchise Business on account of temporary and contract employee placement services after deducting therefrom all Temporary and Contract Employee Expenses attributable to the temporary and contract employees. As long as your Franchise Agreement remains in effect and you are not in default, we will pay you your Franchisee's Contract Staffing 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 Contract Staffing Share on the next business banking day. See Section 5 and Section 6 of the Franchise Agreement for a detailed discussion of the calculation of your Franchisee's Contract Staffing Share.

4. If Contract Staffing Receivables remain uncollected for more than 42 days after the invoice date (the "**42 Day Period**"), you must pay us an overdue accounts 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.

5. The minimum annual royalty of \$12,000 begins on the first day of the first full calendar year after the day you sign your Franchise Agreement unless you enter the franchise agreement as a renewal of an existing MRINetwork franchise agreement. In that case, the minimum annual royalty obligation will begin immediately after signing the renewal franchise agreement. If the minimum annual royalty is not met through your payment of Continuing Fees in any given calendar year, you will be required to pay the difference in royalty between what you paid and the minimum annual royalty. If your franchise agreement is terminated for any reason prior to the expiration of the term, you will be responsible for payment of the minimum annual royalty for the remainder of the term, unless waived by us in writing.

6. You will pay the Marketing and Public Relations Fee of 0.5% of Gross Funds via a deduction from your weekly Franchisee's Recruiter Share and Franchisee's Contract Staffing Share (See Note 2 and Note 3, above). We define Gross Funds as all billings from your temporary and contract staffing services and all Net Cash In (See Note 2, above).

7. You will pay a Back Office Services Fee of \$950 per month in exchange for us providing you with the following services:

- updates to and maintenance of Franchisor's billing and payroll system;
- invoicing customers for Recruiter Services and Contract Staffing Services;
- accounts receivable and cash receipts application services;
- basic accounting assistance including preparation of monthly profit and loss statements and balance sheets for the Franchise Business;
- collections assistance including calls and demand letters, *provided, however*, that Franchisee shall bear ultimate responsibility for collections;
- accounts payable assistance including payment of regular monthly, quarterly, and annual vendor invoices (which amounts Franchisee will advance to Franchisor) on behalf of Franchisee; and

- optional liaison services between Franchisee and any professional employment organization or similar organization Franchisee selects to assist with benefits and payroll administration of internal staff.

This monthly fee will be deducted from Franchisee's Recruiter Share and Franchisee's Contract Staffing Share until the entire monthly deduction is made.

8. If you do not pay any amount due under the Franchise Agreement when it is due, in addition to the amount due, you will also owe an amount equal to the lesser of five percent (5%) per month of the late payment from the due date until paid or the maximum rate allowable under applicable law.

9. At our discretion we offer additional optional training programs to members that are not in default of their franchise agreement. You are not required to attend or pay any fee if you do not attend. We reserve the right to charge a fee for additional optional training. The prices for these programs will be published in advance and may vary. If you sell the business to a new buyer, they will have to pay the Jump Start Fee, which will cover administrative and training costs.

10. The Annual Owners' Meeting is mandatory. Registration fees will vary depending on the costs to MRI but have typically ranged between \$500 and \$700 per attendee, not including the cost of travel, room, and board, for which you are responsible.

11. If your Franchise Agreement is terminated pursuant to Section 20.2 of the Franchise Agreement within nine (9) months of the date you sign the Agreement, you will be responsible for paying a fee of \$15,000. Termination under Section 20.2 may occur in any of the following situations:

- Franchisee has not generated sufficient Gross Funds to pay a Gross Continuing Fee of at least three thousand dollars (\$3,000.00) within six (6) months following the Effective Date;
- Franchisee is declared bankrupt or judicially determined to be insolvent, or all or a substantial part of the assets of Franchisee or the Franchise 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;
- Franchisee abandons the Franchise Business by failing to operate for five (5) consecutive days during which Franchisee is required to operate the Franchise 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 Franchise Business;
- Franchisee has made any material misrepresentation relating to acquisition of the Franchise Business or to induce Franchisor to enter into this Agreement;
- Franchisee engages in conduct that, in Franchisor's sole determination, materially and unfavorably reflects upon the operation and reputation of the Franchise Business or the System;
- Franchisee fails for a period of ten (10) days or such longer period as applicable Law may require, after notification of noncompliance, to comply with any federal, state, or local Law or regulation applicable to operation of the Franchise Business;
- after curing any failure described in Section 20.1 Franchisee engages in the same noncompliance, regardless of whether such noncompliance is corrected after notice;
- Franchisee repeatedly fails to comply with one or more requirements of this Agreement regardless of whether corrected after notice;

- the Franchise Business is seized, taken over or foreclosed by a Governmental Authority 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;
- a levy of execution is made upon the Franchise Business or upon any property used in the Franchise Business and is not discharged within five (5) days after such levy;
- Franchisee, or any of its Principals, shareholders, members, officers, directors, or partners is convicted of, or pleads guilty or no contest to, any crime punishable as a felony or involving moral turpitude or immoral conduct;
- Franchisee attempts to transfer the Franchise Business or make an assignment of this Agreement in violation of Section 13 of the Franchise Agreement;
- in the event of death or incapacity, the surviving spouse, heirs, beneficiaries, devisees, or legal representatives fail to comply with the provisions of Section 13.7;
- Franchisee discloses, attempts to disclose, or threatens to disclose any of the Trade Secrets in violation of this Agreement;
- 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;
- Franchisee fails to disclose to Franchisor the existence of a non-compete restriction applicable to Franchisee; or
- Franchisee or, if applicable, its Principals, shareholders, members, 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.

12. If we conduct an audit on the Franchised Business and you are found to have underreported revenue, you must make payment of any unpaid royalty and MPRF as well as the costs of the audit which will not be less than \$1,000.00. If no underreporting is found, you will not be responsible for any fees.

13. We may be required to take steps and incur costs to collect money 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.

14. 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

Type of expenditure	Amount*	Method of payment	When due	To whom payment is to be made
Initial Franchise Fee ¹	\$40,000	Up front or, in Franchisor's sole discretion, via weekly deduction from Franchisee's Share	The first 156 weeks following the Effective Date	MRI
Real Estate and Improvements ²	\$0 - \$2,000	Lump sum	Before opening	Landlord
Computer Hardware ³	\$0 - \$4,500	As incurred	Before opening	Suppliers
Applicant Tracking System ⁴	\$900 - \$2,100	As incurred	Before opening	Suppliers
Online Recruiting Software ⁵	\$1,100 - \$6,100	As incurred	Before opening	Suppliers
Cabling for Office ⁶	\$0 - \$1,900	Lump sum	Before opening	Suppliers
Internet ⁷	\$0 - \$300	As incurred	Before training	Suppliers
Office Furniture ⁸	\$0 - \$3,000	As incurred	Before opening or as arranged	Suppliers
Licensing Fees ⁹	\$0 - \$300	Lump sum	Before opening	Government Licensing Authorities
Initial Office Supplies ¹⁰	\$300 - \$500	As incurred	Before opening	Suppliers
Business Insurance ¹¹	\$1,750 - \$2,000	As incurred	Before opening	Insurance Suppliers
Professional Services ¹²	\$0 - \$2,500	As incurred	At your discretion	Attorney, Accountant, Other Professional Service Providers
Miscellaneous ¹³	\$0 - \$500	As incurred	At your discretion	Suppliers
Salaries ¹⁴ : Researcher	\$0 - \$6,240	As incurred	At your discretion	Staff
Account Executive	\$0 - \$9,000	As incurred	At your discretion	Staff
Project Coordinator	\$0 - \$9,000	As incurred	At your discretion	Staff
Printer (all in one)	\$0 - \$150	As incurred	Before opening	Suppliers
Additional Funds (3 months) ¹⁵	\$0 - \$6,000	As incurred	At your discretion	Varies
TOTAL ESTIMATED INITIAL INVESTMENT:	\$44,050 - \$96,090			

*The low range in the Amount column assumes that you will not hire any employees within the first three months of operation and the high range assumes that you will hire three full-time employees within the first three months.

Notes:

1. You must pay to us an initial franchise fee (the “Initial Franchise Fee”) when you sign the Franchise Agreement. The Initial Franchise Fee is \$40,000. This Initial Franchise Fee will be paid by you in cash contemporaneously with the execution of your Franchise Agreement. In Franchisor’s sole discretion, certain qualified franchisees may be allowed to pay the Initial Franchise Fee via a temporary deduction from the share we pay you pursuant to the franchise agreement equal to 2% of all Franchise Receivables (as that term is defined in the Franchise Agreement) until the entire Initial Franchise Fee is fully recovered. **The Initial Franchise Fee is fully earned by us when you sign the franchise agreement. Fees paid are not refundable under any circumstances.**
2. We recommend you operate your business from a commercial office. If you do so, the real estate expense usually consists of a one-month’s lease deposit. We recommend that you lease an office ranging between 1,000 and 1,200 square feet, at an annual rental rate ranging from \$10 to \$35 per square foot. The monthly rent (and one month’s deposit) has generally ranged from around \$1,000 to \$2,000. Usually, your landlord will include the costs of leasehold improvements and decorating in the rent. We have a vendor who can help you with your office lease at no cost to you.
3. You should have a computer hardware, software, and support. We recommend a laptop or desktop compatible with our systems, docking station, accident protection (3 years), two 22” monitors, mouse, keyboard, display port cables, managed service support (1 year), a VOIP phone system (1 year), headset, Microsoft 365 Business Standard including email (1 year). The range reflects purchase of all hardware, software, and support if you do not already have these items. We will conduct a computer system evaluation with you following execution of the Franchise Agreement to identify your needs.
4. You should purchase an Applicant Tracking System to use in the operation of your business. We will work with you to determine the best ATS system for you after execution of the Franchise Agreement.
5. Online recruiting software such CareerBuilder, ZoomInfo, and LinkedIn Recruiter for 1 year. We will work with you to determine the best online recruiting software for your needs.
6. Ethernet cabling is recommended for your VOIP telephone and data telecommunication needs and would cost about \$350 for each data drop if your office is not already wired. You will face additional setup costs for the wiring for a hardwired telephone system. If you have cabling already installed there should be no cabling costs.
7. The monthly cost for Internet averages approximately \$300 for up to five users, enough to handle a startup office.
8. We recommend a 2 or 3-user workstation configuration that costs from \$1,000 to \$3,000 including delivery and set-up. This office furniture layout will give you room to hire. If you already have office furniture you will have no expenses.
9. Some states require that you obtain an employment agency license and bond or register in order to operate a personnel placement service. The cost range for this license and bond or registration is between \$150 and \$300. If a license is required, it is only for the state in which your business is located, unless you plan to conduct recruiting activities in a state that requires licensing and/or registration for out of the state recruiters, for example New Jersey. If your state doesn’t require a license, there will be no

expense.

10. Expenses consist of general office supplies.

11. This represents the estimated annual premium for the business insurance required by the franchise agreement. You do not have to have insurance before you begin operating your business. These expenses do not include the cost of workers' compensation insurance, which varies greatly by state and are dependent on the number of employees, if any, you have.

12. Professional Services such as legal or accounting advice during contract or lease review or formation of a corporation or limited liability company. If you do not use Professional Services, there will be no expense.

13. Office expenses like office supplies, coffee, beverages. If you do not purchase these items there will be no expense.

14. You are not required to hire anyone to work with you in the Franchised Business, although we encourage you do so.

a. Researcher: If you hire a Researcher, this sum represents our estimate of working capital for a three-month period. We assume that the office has no cash receipts during this period. No one can predict when or whether any particular office will first receive cash receipts. Salaries may vary by city and state. Salary used for this calculation is \$12/hr. and reflects part-time to full-time status.

b. Account Executive and/or a Project Coordinator: If you hire an AE and/or PC, this sum represents our estimate of working capital for a three-month period. We assume that the office has no cash receipts during the period because no one can predict when or whether any particular office will first receive cash receipts. Salaries may vary by city and state. Salary used for this calculation is a \$3,000/month draw and reflects full time status.

15. This is an estimate of additional funds you will need in the first months of your business. These figures are estimates based on the experience of new members and we cannot guarantee that you will not have additional expenses starting the business.

We considered our experience as a franchisor for over 20 years and our recent experience with our new members to compile the estimates in this Item. Some states impose sales and use taxes on goods and services. If your office will be in one of these states, you may have an added expense for taxes. Check with your local accountant to find out if your state imposes taxes on recruiting services.

Fees paid to MRI are not refundable under any circumstances. Fees paid to third-party vendors may be refundable but will be dependent upon your agreement with the third-party vendors over whom MRI has no control. Our affiliate, HQ Franchising Corporation, offers limited financing to eligible franchisees. See Item 11 for additional information regarding financing availability and conditions.

ITEM 8: RESTRICTIONS ON SOURCES OF PRODUCTS AND SERVICES

We may identify various “required suppliers” that your franchised business would be required to use. These required suppliers will meet our standards and requirements. We maintain a list of recommended suppliers, and we will update these lists periodically and reserve the right to change suppliers. If we have not identified a required supplier for a specific service or product, you may use any supplier you choose.

No franchisor officer owns an interest in any required supplier. Mr. Hermanns, our CEO, does own a portion of BNW Payrolling, LLC, a professional employment organization, which provides payrolling, human resources, and risk management services to some franchisees of Franchisor or its affiliates. But you are under no obligation to utilize their services.

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 Materials. A form of the Computer Services Agreement is attached as Exhibit B to 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, 2023, 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.

You have an ongoing required expense for business insurance premiums. The premiums vary depending on revenue in your business, your credit rating, and the type of payment schedule you choose. We do not require members to provide us with expense information and cannot determine what percentage this will be of your ongoing costs, but the average annual costs for \$0 to \$500,000 in revenue is \$1,750, \$500,000 to \$1,000,000 is \$2,250, \$1,000,000 to \$2,000,000 is \$3,000. Anything above \$2,000,000 in revenue must be determined by an underwriting review. You are required to have the following insurance coverage:

- COMMERCIAL GENERAL LIABILITY including bodily injury and property damage liability for premises and operations, contractual liability, personal injury liability and, if applicable, stop gap coverage in the amount of \$1,000,000.00 each occurrence and \$2,000,000.00 annual aggregate;
- BUSINESS AUTOMOBILE LIABILITY if Franchisee is a corporate entity that owns a vehicle: including bodily injury and property damage liability for owned, leased, non-owned, and hired autos used in the Franchise Business in the amount of \$1,000,000.00 each accident;
- WORKERS’ COMPENSATION with the statutory minimum limits set by applicable Law, unless the Laws of Franchisee’s state do not require this coverage for sole proprietors;
- EMPLOYER’S LIABILITY in the amount of \$500,000.00 or statutory minimum limits, whichever is greater;
- PROPERTY including “all-risk” coverage on all real and personal property owned, leased, or rented by Franchisee as well as business income and extra expense coverage. This insurance

shall be written for the replacement cost of Franchisee's real and personal property and on an actual loss sustained basis for the business income and extra expense;

- ERRORS AND OMISSIONS in the amount of \$1,000,000.00 per claim and annual aggregate;
- EMPLOYMENT PRACTICES LIABILITY in the amount of \$1,000,000.00 per claim and annual aggregate. This insurance is required regardless of whether or not Franchisee has employees;
- COMMERCIAL BLANKET EMPLOYEE DISHONESTY BOND including coverage for any ERISA plans in the amount of \$100,000.00 or 10% of the ERISA plan assets, whichever is greater, if Franchisee has employees;
- LICENSE BOND if required by applicable Law;
- UNEMPLOYMENT COMPENSATION with the statutory minimum limits set by applicable Law unless Franchisee is a sole proprietor and the state Law in Franchisee's state does not require this for sole proprietors.
- Any and all other types and limits of insurance that may be required, from time to time, by Franchisor or applicable Law.

In some cases, MRI has contracted for discounts with third-party suppliers for services they provide to you. In some cases, the third-party supplier has required MRI to be the contracting party for a particular service at the discounted rates. If you choose to participate in these wholly voluntary services, we collect the fees for the third-party services and tools you purchase, which we then pay to the third-party suppliers. We may charge you more for the services than we are required to pay. Such charges are to cover the cost of our management of the contract and payments.

If we approve a required supplier, we will carefully review the quality of the products and services they provide to us and our members. If you would like us to consider another supplier for a product or service where we have designated a required supplier, you must make such request in writing to us and have the supplier provide us with samples of its product and such other information that we may require. If the supplier meets our specifications we may approve it as an additional required supplier, in our sole discretion. We will notify you whether we approve or disapprove of the proposed required supplier within sixty (60) calendar days after we receive all required information to evaluate the product or service. If we do not disapprove a proposed required supplier within sixty (60) calendar days, then you may consider the proposed required supplier approved. You pay us no fee. We may revoke approval upon thirty (30) days written notice to you. Upon revocation, of a required supplier you must cease using them.

We may contract with national vendors for products and services for the Franchise Businesses ("**National Vendor Programs**"). You agree to participate in National Vendor Programs unless you opt out within fourteen (14) business days of notice of our intent to contract with a national vendor. If you do not opt out of a National Vendor Program, you shall be included in the program. You must notify us no later than thirty (30) days prior to the expiration of the national vendor agreement if it wish to be excluded from any renewal of any National Vendor Program. In the event that the contract with a national vendor requires us to make full payment of fees directly to the national vendor, you must pay your pro rata share, based on the number of participating Franchisees, to us immediately on demand.

We may develop one or more job boards servicing the MRINetwork and any other franchisees of HireQuest or even external third parties. If we do, you are required to post all job openings for the Franchise Business on said job board. You may also post those same job openings on other job boards simultaneously.

We provide you with the operating procedures of the MRINetwork through our online resource materials (for the purpose of this FDD, we will refer to this as the "Brand Standards Materials." Changes to our

operating procedures can be modified in our sole discretion from time to time, and such modifications are published in our Brand Standards Materials.

We and our Affiliates may receive revenue as a result of some of your required purchases. MRI's revenue from all required purchases of products and services in 2023 was \$0. This reflects 0% of our total revenue from your required purchases.

We estimate that your required purchase from approved suppliers will represent approximately 18% (low range) to 40% (high range) of your costs to establish your Franchise Business.

No purchasing or distribution cooperative exists. We negotiate purchase arrangements with suppliers, including prices, for the benefit of our members. For example, we have negotiated prices and other terms for voice over IP telephone service, data sources, web developers, on-line job boards, hardware, software, and technical support. We do not provide material benefits to members based on their purchase of particular products or services or use of particular suppliers.

ITEM 9: FRANCHISEE'S OBLIGATIONS

This table lists your principal obligations under the franchise and other agreements. It will help you find more detailed information about your obligations in these agreements and in other items of this disclosure document.

Obligation	Section in agreement	Disclosure document item
a. Site selection and acquisition/lease	Section 4	Items 7 and 11
b. Pre-opening purchases/leases	Section 4	Items 7, 8, 10 and 11
c. Site development and other pre-opening requirements	Section 4	Items 7, 8, and 11
d. Initial and ongoing training	Section 8	Items 7 and 11
e. Opening	Section 4	Item 11
f. Fees	Section 5	Items 5, 6, and 17
g. Compliance with standards and policies/operating manual	Sections 9, 10, and 11	Items 11 and 14, Exhibit G for the MRI Code of Conduct
h. Trademarks and proprietary information	Sections 12 and 19	Items 13 and 14
i. Restrictions on products/services offered	Section 10	Item 16
j. Warranty and customer service requirements	None	None
k. Territorial development and sales quotas	Section 5	Item 12
l. Ongoing product/service purchases	None	Item 8
m. Maintenance, appearance and remodeling requirements	Section 10	None
n. Insurance	Section 11	Item 7
o. Advertising	Section 10	Items 6 and 11
p. Indemnification	Section 15	None
q. Owner's participation/management/staffing	Section 9	Item 15
r. Records and reports	Sections 6, 10, and 19	Item 6
s. Inspections and audits	Sections 4, 6, and 10	Items 6 and 11
t. Transfer	Section 13	Item 17

u.	Renewal	Section 3	Item 17
v.	Post-termination obligations	Sections 17 and 21	Items 11, 17
w.	Non-competition covenants	Section 17	Items 11, 17
x.	Dispute resolution	Sections 22 and Agreement to Arbitrate Member Disputes	Item 17

ITEM 10: FINANCING

Our affiliate HQ Financial Corporation offers limited financing to qualified franchisees for the purpose of financing your Franchise 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 A). 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 an MRI Franchised Business. 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 acquisitions by you of competitive organizations.

Eligibility Requirements. To apply for a loan, you must submit an application to the Legal Department, 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 or weekly installments (based on the agreement of the parties) 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 2023, the Prime Rate fluctuated. As of December 15, 2023, the Prime Rate was 7.5%; 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 near the end of

2023 would have been 10.5%. Assuming the 10.5% rate, and that you borrowed \$40,000 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 10.5%.

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. Although we have sold franchisee notes in the past, we have only sold them at face value to Bass Underwriters, Inc., an entity which is largely owned by Mr. Hermanns, our CEO, and another of our largest shareholders. We continue to service those notes via a deduction from Franchisee’s Share on weekly settlement statements.

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, MRI is not required to provide you with any assistance.

Pre-Opening Obligations

1. Provide you with access to Brand Standards Materials (Franchise Agreement Section 7);
2. Advise you on the equipment and procedures necessary to locate and set up your business (Franchise Agreement Section 7);
3. Provide access to Franchisor's payroll and billing software (Franchise Agreement Section 7);
4. Provide our New Office Training program (Franchise Agreement Section 8).

Time to Open

As soon as you sign the Franchise Agreement, you will begin your Business Startup and New Office Training. New Office Training and Business Startup lasts six weeks. You must begin your business within sixty (60) days following the signing of the Franchise Agreement and completion of the New Office Training.

Obligations after Opening

1. Access to our online Brand Standards Materials. (Franchise Agreement Section 7);
2. Ongoing support and consultation as needed for the operation of the Franchise Business. (Franchise Agreement Section 7);
3. Post-opening assistance and consultation via telephone or in person at the Location at the sole and absolute discretion of Franchisor (Franchise Agreement Section 7);
4. Back office services in exchange for a fee including:
 - updates to and maintenance of Franchisor's billing and payroll system;
 - invoicing customers for Recruiter Services and Contract Staffing Services;
 - accounts receivable and cash receipts application services;
 - basic accounting assistance including preparation of monthly profit and loss statements and balance sheets for the Franchise Business;
 - collections assistance including calls and demand letters, provided, however, that Franchisee shall bear ultimate responsibility for collections;
 - accounts payable assistance including payment of regular monthly, quarterly, and annual vendor invoices (which amounts Franchisee will advance to Franchisor) on behalf of Franchisee; and
 - optional liaison services between Franchisee and any professional employment organization or similar organization Franchisee selects to assist with benefits and payroll administration of internal staff.(Franchise Agreement Section 7);

5. Provide you with consultation and guidance on marketing and public relations for the promotion of your business in our sole and absolute discretion. (Franchise Agreement Section 7)

6. Establish and administer a marketing and public relations fund pursuant to the terms of the Franchise Agreement. (Franchise Agreement Section 7)

7. Establish and maintain a website at MRINetwork.com or such other domain as we in our sole and absolute discretion choose. (Franchise Agreement Section 7)

8. Provide you a list of approved vendors and negotiate vendor discounts which you may participate in (Franchise Agreement Section 7)

9. Facilitate your use of direct deposit and electronic pay card services for temporary and contract employee payroll (Franchise Agreement Section 7)

10. 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 6.2);

11. Pay you your share of moneys collected from customers, described in the Franchise Agreement as “Franchisee’s Contract Staffing 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 Contract Staffing 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 and Section 6.2;

12. Pay you your share of moneys collected from customers, described in the Franchise Agreement as “Franchisee’s Recruiter Share” calculated as Net Cash In less Continuing Fees, other adjustments, and other amounts owing to us, on the Wednesday following the week in which the account was collected. If that Wednesday is a banking holiday, then we will pay to you your Franchisee’s Recruiter 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 5.2 and Section 6.1;

13. 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 10.7).

We also offer additional meetings and training sessions in person and virtually. You are responsible for registration fees, travel, and room and board in connection with any national or regional meeting or other training event you attend.

We may suspend your access to services, such as job boards, MRI Vendor Pricing, MRINetwork.com, Contract Staffing, online materials, and other resources/vendors without notice if you are in default of the Franchise Agreement.

Advertising

Marketing and Public Relations (Franchise Agreement Section 7)

You are required to contribute 0.5% of your monthly Gross Funds to the Marketing and Public Relations Fund (the "MPRF"). Not all offices contribute to the MPRF. A few long tenured offices have been permitted to conduct their own marketing and send proof of performance to us. We do not allow this for new members. We do not use any advertising funds for the solicitation of new members; however, we may include mention of franchise availability in any marketing materials. Franchisor/Affiliate-owned outlets would be required to contribute to the MPRF at the same rate as other franchisees with the same franchise agreement.

We provide marketing, advertising, public relations services, materials, training as well as meetings and events support to the MRINetwork. These investments are supported by payments to the MPRF. We are not required to spend any amount on advertising in your territory or area either through the MPRF or in any other manner.

Marketing and public relations activities may be through broadcast, print online advertising, direct marketing, direct mail, social media, including the MRINetwork public facing website (www.MRINetwork.com) and surveys like the MRINetwork Recruiter Sentiment Survey. We conduct industry research through our office network to enable more effective decision making. Relevant information is disseminated to the media in the form of press releases, articles, and other local, regional and national public relations designed to increase awareness of the MRI Brand and the MRINetwork franchised locations. We retain sole rights to the MRI Brand and Marks.

We also provide customizable print, electronic and video tools and templates for your use, with supporting training resources and consultative services. These tools, templates and training resources are available for download from the company intranet, and from time to time through vendor-partner managed Resource Centers for exclusive use by MRINetwork members.

We produce marketing and public relations materials through both our in-house marketing and public relations department and outside vendors. We direct all marketing programs.

The MPRF is used to meet costs of maintaining, administering, directing, conducting, and preparing marketing, public relations, meeting support, and/or promotional programs and materials, supporting technology, and any other activities which we believe will enhance the image of the MRINetwork and provide the tools, resources and support enabling a franchised business to drive and execute their own unique marketing plans. This may include, but it is not limited to, costs of preparing and conducting media advertising campaigns, ongoing management and maintenance of the MRINetwork.com public facing website, tools to produce the marketing tools and resources, marketing surveys, employ advertising and/or public relations agencies and Internet designers to assist us, and marketing consultation services. We have also used the MPRF to support legislative efforts on issues of concern to our offices' businesses.

We use the MPRF to defray some of our expenses, such as our reasonable costs and overhead related to the direction and implementation of the Fund and marketing and public relations programs. This includes costs of personnel for creating, implementing and communications of the advertising, promotional and marketing programs. The current contribution by you is 0.5%. All new members contribute to the MPRF.

During 2023, Marketing and Public Relations fund expenditures were as follows: Creative: 9%; Media: 4%; Tech-Digital: 20%; In-House Marketing Team: 56%; Meetings: 8%; Miscellaneous: 4%.

We have no obligation to make expenditures that are equivalent or proportionate to your Fund contribution or to ensure that you benefit directly or pro rata from the production or placement of advertising from the MPRF. We also have no obligation to spend any amount on advertising in your area.

You may develop advertising materials for your own use, at your own cost, but we do not require any amount be

spent on local advertising. The MPRF is not primarily used to sell additional franchises.

There is no advertising council composed of franchisees at this time.

We do not have any advertising cooperatives and you are not required to participate in any cooperative. You may request an unaudited accounting of the MPRF by contacting MRI’s Finance Department. You may contact the Finance Department to request an accounting via telephone at (843)723-7400, email at accounting@hirequest.com or written correspondence sent to MRI Finance Department at 111 Springhall Drive, Goose Creek, SC 29445.

Computer Systems

You must install and maintain our billing and payroll software, management software, and computer hardware and software sufficient to run those programs. In the future, we may require you to enter into software license agreements in a form and substance that we approve for software that we develop or acquire for use in your business. You shall have and maintain adequate hardware and software capable of accessing high speed internet and shall maintain access to such internet. You must maintain a website with information regarding your business. You must pay all fees and expenses for technology used in your business. We will host and process data regarding your business pursuant to a computer services agreement.

Table of Contents of the Brand Standards Materials

MRI does not have a traditional Brand Standards Manual. Instead, it has compiled an extensive online resource which contains all standards and specifications and operating materials, videos, training resources, forms, policies, and procedures (“Operations Materials”). The subjects contained include the following. The Operations Materials currently has 556 documents made up of 2,245 pages and is updated regularly. The Table of Contents is found at Exhibit C.

Training

TRAINING PROGRAM

Subject	Hours of Classroom Training	Hours of On-The-Job Training	Location
Specialization/Branding	0	10-40 hours for specialization and 4-8 hours on marketing/website	Virtual
Operations (Office Set Up/Start Up)	4-8 hours	20-30 hours	Virtual
Leadership/Management	0	10-40 hours	Virtual
Marketing	3	8	Virtual
Client	50	40	Virtual
Talent	50	40	Virtual
Immersion Training	N/a	40	Various
Integration Training	16	0	HireQuest in Goose Creek, SC
Total	120-124	168-238	

You and/or your General Manager are required to attend and complete to MRI's satisfaction our New Office Training Program to MRI's satisfaction. The additional program(s) you are required to attend may vary, based on MRI's sole discretion given your experience, tenure, skillsets, etc. for your benefit.

We conduct our training program quarterly. Training is provided by our instructors: Ron Dermady, our Sr. Director, Learning and Talent Development has 21 years of experience in the staffing placement industry as an account executive, manager, and director in staffing firms, and been with MRI for eight years. He has a bachelor's degree in Education and a master's degree in Counseling. In addition, training is conducted by our Professional Development Managers: Hannah Butcher who has 6 years of experience in the staffing and placement industry as a Recruiter, Staffing Manager, and Account Executive and has been with MRI for two years; Danielle Blevins has 14 years of experience in the staffing and placement industry as a Staffing Manager, Branch Manager, Director of Recruitment, Staffing Development Manager, and Operations Recruitment Specialist and has been with MRI for one year and six months; Laurie Miller who has 14 years of experience in the staffing and placement industry as an award-winning recruiter in direct hire and contract staffing recruiting while working in multiple disciplines, including; Information Technology, Manufacturing, Hospitality, and Healthcare. Ms. Miller joined MRI in February 2022.

Additional Training

Access to training resources are offered via self-directed modules, online webinars and/or classroom training and are accessed through the MRINetwork Learning Management System (the "Path[®]"). The course catalog consists of subjects ranging from foundation to leadership, people management, and marketing.

In some instances, we pass on actual cost for materials and/or licensing for external content, which will vary depending on the materials. Participants are informed of charge clearly and prior to enrolling in any training program. These programs are optional, and you are not required to attend.

Additional learning opportunities are included and available and include best practice information, content, tools, presentations, materials, recordings and other resources. The media for our training materials may change as technology changes.

Additional learning opportunities are included and available and include best practice information, content, tools, presentations, materials, recordings and other resources. The media for our training materials may change as technology changes.

We do not have local or regional cooperatives.

Corporate sponsored workshops, meetings and events, such as the international Annual Owners' Meeting, which is a mandatory event, CPP Programs (a role based MRINetwork skill certification designation achieved via study and testing) and Pacesetter (a rewards program) have registration fees associated with them, plus the participant's travel and expenses. Registration fees vary depending on the venue and the length of the program but are reasonably related to our costs of presenting the programs. Registration fees will vary depending on the costs to MRI but have typically ranged between \$500 and \$900 per attendee, not including the cost of travel, room, and board, for which you are responsible.

At our discretion, we may provide new and existing members with assistance and advice to support the development of your business through its entire life cycle. This support may consist of one-on-one meetings conducted before, during or after a company sponsored event or meeting, telephone conference calls or face-to-face visits to your office. We are unable to deliver any face-to-face support to a home-based office. All members of our field services staff have substantial industry experience in a wide range of roles and are trained to provide you with advice and training.

Certified Professional Programs.

Since 1985, we have offered members and their employees, the opportunity to earn a professional accreditation that signifies to clients and candidates that they are working with a professional committed to continuous development and high customer service.

Certifications are available for account managers, managers, and project coordinators who attend preparatory courses covering all aspects of the recruiting business and achieve the required score on an examination. Certified professionals have access to a broad range of conference sessions, courses, and meetings. There are no additional fees for participation in the Certified Professional Program. We offer CP training every other month for eligible franchisees via video conference. In order to qualify for CP certification, franchisees must have been in the Network for at least two years, have lifetime cash-in of at least \$500,000, and obtain sufficient score on the applicable examination. In order to maintain the Certification, you must: attend 50% of all CPP events per year; and attend at least 1 LTD training class per year.

Site Selection

MRI does not provide any site selection services, but must approve the location of your office. MRI must also approve any relocation. Approval will only be denied where the location is in the legacy territory of an existing member with an exclusive territory.

MRI has no specifications for the design or setup of your office and does not assist with permits, construction, remodeling, or decorating the premises or the hiring of employees. MRI does not provide assistance with providing equipment, signs, fixtures, opening inventory or supplies. MRI does not typically own the premises leased to you.

After signing the franchise agreement, you will typically have a soft opening within two weeks. This will include having your online profiles for your business set up and you will begin to make calls and conduct research and begin your database build. Following New Office Training, which typically occurs within three months *after* signing the franchise agreement, you should be opened and operating your business. Factors that could affect this opening would be failure to successfully complete the next available training.

Pricing

MRI does not establish minimum or maximum prices at which franchisees sell their services. MRI may provide as appropriate suggestions and strategies for competitive pricing based on MRI's business experience.

ITEM 12: TERRITORY

Members who purchase a franchise receive a single site non-exclusive location. There are no minimum territorial rights under this franchise opportunity. There are no restrictions placed on you for soliciting and conducting your franchised business anywhere in the world.

MRI can sell additional franchises within the geographic location of your site. We are not obligated to compensate you for soliciting and/or conducting business within your location while using our principal trademark(s) or any other trademarks. You may not relocate your office under any circumstance without our prior written approval.

You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, from other channels of distribution or competitive brands that we or our affiliates control. Management Recruiters International, Inc., previously granted exclusive territories (“legacy territory(ies)”) and some of those territories are still in effect. Existing members with legacy territories are under no obligation to permit another member to relocate in the legacy territory. The business is conducted largely via long distance and Internet so there is limited, if any, impact on your business from nearby members. Because recruiters work specific industries, you may in fact find that your closest competitor in the MRINetwork is located in a different part of the United States. With MRI’s prior written approval, owners of single site locations are permitted to relocate anywhere in the United States subject to any legacy territory rights. If you choose to locate or relocate to a legacy territory, you may be required to pay a supplemental royalty to the existing member to obtain their consent. This is typically two percent (2%) of Net Cash-In and is dependent upon the decision of the legacy territory owner.

MRI and its affiliates reserve the right to use any channels of distribution, including the internet, to make sales of products or services in any territory/location while using the MRI trademarks or other trademarks not licensed to you. MRI is not required to compensate franchisees for soliciting or conducting business within any territory/location.

The office location is subject to our reasonable approval, which will be based on the size of the office and the nature, location and quality of the building in which you want to locate. You may relocate your office as you choose, subject to our reasonable approval, which will be based on the same considerations.

The franchise agreement does not grant any options, rights of first refusal, or similar rights to acquire additional franchises.

HQ MRI Corporation licenses businesses that provide temporary personnel placement services under the MRI Contract Staffing service mark. These offices may offer “temp-to-perm” or “temp-to-hire” services where a candidate would start as an MRI Contract Staffing employee and then become a permanent employee of the client and the MRI Contract Staffing recruiter would receive the equivalent of a permanent placement fee.

Franchisor’s Similar Brands

SearchPath

On February 28, 2023, HQ MRI Corporation acquired the assets of SearchPath Global, Inc. (“SearchPath”), a franchisor of over 40 permanent placement franchisees across the country. This acquisition will broaden our franchise offerings in the direct placement vertical. SearchPath’s co-founder Amy Johnston will remain with the company and will play a central role in the continued development of SearchPath. Pursuant to this acquisition, HQ MRI Corporation now owns certain SearchPath franchise agreements, trademarks, and related contracts.

SearchPath franchisees tend to be search/placement generalists and operate under the tradename SearchPath (while many MRI franchisees utilize their own boutique tradenames and operate in high-end niche markets).

Franchisor does not own any SearchPath locations.

SearchPath operates utilizing the following trademarks: "SearchPath," word mark, Reg. No. 3245499 and "SearchPath" design, Reg. No. 6578799

You will not have any exclusive territory as an MRI Franchisee. SearchPath franchisees may solicit or accept orders for customers in your area. SearchPath franchisees do not own exclusive territories.

HQ MRI 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.

HQ MRI Corporation does not maintain separate physical offices or training facilities for MRI and SearchPath. HQ MRI Corporation shares its corporate headquarters with HQ Franchising Corporation at 111 Springhall Drive, Goose Creek, SC. HQ MRI Corporation has dedicated leadership and staff for MRI Network franchise operations and support.

Affiliate-Owned Brands

Our affiliate, HQ Franchising Corporation, sells franchises that offer services similar to MRINetwork under the trade names Snelling, HireQuest, HireQuest Direct, TradeCorp, DriverQuest, and HireQuest Health.

HQ Franchising Corporation and HQ MRI Corporation are headquartered at 111 Springhall Drive, Goose Creek, SC 29445. HireQuest, Inc., HQ Franchising Corporation, and HQ MRI Corporation do not maintain separate physical offices or training facilities for the similar competing businesses.

Snelling®

Services: Snelling® franchised businesses offer temporary staffing solutions in the light industrial and semi-skilled sector.

Trademark: Snelling® is registered with the USPTO under Registration No. 1755978.

Ownership: Except for one location (Philadelphia, PA), all Snelling franchises are franchisee-owned.

Orders: You will not have an exclusive territory. Snelling franchisees do not typically make management-level placements or management-level contract staffing assignments as they primarily service light industrial temporary staffing clients. However, Snelling franchisees could 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 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. The Snelling® division is under the direction of Vice President Tim Neilson, who is supported by dedicated staff members.

HireQuest Direct®

Services: HireQuest Direct® franchised businesses offer temporary staffing solutions in the construction and unskilled labor sector. Trademark: HireQuest Direct® is registered with the USPTO under Registration No. 6273623.

Ownership: All franchises are franchisee-owned.

Orders: You will not have an exclusive territory. HireQuest Direct franchisees do not make management-level placements or management-level contract staffing assignments as they primarily service the construction and unskilled labor market temporary staffing clients. However, HireQuest Direct franchisees could 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 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.

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 HireQuest franchisees have chosen to operate as Snelling. We no longer sell 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: You will not have an exclusive territory. Hire Quest franchisees do not typically make management-level placements or management-level contract staffing assignments as they primarily service light industrial temporary staffing clients. However, these franchisees could 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 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.

TradeCorp

TradeCorp franchisees offer skilled trades temporary staffing solutions. This is a new franchise concept issued 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: You will not have an exclusive territory. TradeCorp franchisees do not typically make management-level placements or management-level contract staffing assignments as they primarily service skilled trades temporary staffing clients. However, these franchisees could 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 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.

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.

ITEM 13: TRADEMARKS

HQ MRI Corporation is the owner of the Marks listed below. The Franchise Agreement will license to you the right to operate your MRINetwork Franchised Business under the trade and service mark MRI, as depicted below.

The following Marks, which are used in the Franchised Business, are registered with the U.S. Patent and Trademark Office (the "USPTO") on its principal register:

Mark	Registration No.	Registration Date
Management Recruiters	906,376	January 19, 1971 Last Renewal: March 19, 2020
MRI	2,014,763	November 12, 1996 Last Renewal: January 22, 2017
	2,014,764	November 12, 1996 Last Renewal: January 22, 2017
	2,817,676	February 24, 2004 Last Renewal: March 10, 2014
MRINetwork	3,286,712	August 28, 2007 Last Renewal: October 1, 2017
Experts in Global Search	5,304,872	October 10, 2017
MR	5,208,237	May 23, 2017

By having a Principal Register Federal Registration for the MRINetwork, we have certain presumptive legal benefits and rights. Where we have renewed a Mark, it is shown above. We intend to file, when due, an affidavit of incontestability or continued use for each of the Marks listed above.

You must notify us immediately when you learn about an infringement of or challenge to your use of the Marks. MRI will take any action we think appropriate and, if you have given us timely notice and are in full compliance with the Franchise Agreement and proper use of the Marks, we will indemnify you for all expenses and damages arising from any claim challenging your authorized use of the Marks. We have the right to control any administrative proceedings or litigation involving the Marks licensed by us to you. You must fully cooperate with us in defending and/or settling the litigation.

You must modify or stop using any Mark if we modify or discontinue it. You must not directly or indirectly contest our rights in and title to the Marks. In the event we modify, change or discontinue any Marks, you will be responsible for and bear the cost of changing and reimagining to conform to our new, updated Marks.

There are no currently effective material determinations of the United States Patent and Trademark Office, the Trademark Trial and Appeal Board, or any state administrator or court, nor is there any pending infringement, opposition or cancellation proceeding, nor any pending material litigation involving our service marks which may be relevant to their use in any state.

There are no other agreements currently in effect that significantly limit our right to use or to license the use of the Marks in any manner material to the franchise.

We do not know of any superior rights or infringing uses that could materially affect your use of the Marks.

Secondary Name

You and we may also agree on a “secondary” name that does not use any of our Marks. You must follow MRI’s rules in using any secondary name. You may use the approved secondary name as part of your corporate name. You may only use the names and service marks approved by us. Any secondary name must be formatted into our logos, designs and our then-current branding elements; it may not be used by itself during the term of the franchise agreement. If you use a secondary name, you must indicate that you are an independent franchisee using the term “A Proud Independent Member of MRINetwork” or such other terminology which we approve in all marketing materials and on your website.

Our review and approval of your secondary name is limited to whether the secondary name meets our guidelines and does not conflict with a secondary name currently used by another member. We do not search the state and federal trademark registration records to determine whether your proposed secondary name infringes on or dilutes a service mark used by a competing business. We strongly encourage you to seek legal advice before you adopt and use a secondary name.

If you are granted permission to utilize a Secondary Name, you may use it solely for the operation of the Franchise Business. Upon termination of your Franchise Agreement, for any reason, you must cease use of the Secondary Name in the same manner as it must cease use of the MRI Marks

ITEM 14: PATENTS, COPYRIGHTS, AND PROPRIETARY INFORMATION

We have no patents or pending patent applications that are material to the franchise. Under the Federal Copyright Act (the "Act"), a copyright arises upon creation of the work and continues for 75 years. The Act does not require registration and our copyrighted materials are not registered. We claim copyrights and other proprietary rights in our Manual and other materials we provide to you for the operation of your Franchised Business. You may use all of these materials while you are a member. You and your employees may only use them for the operation of the Franchised Business. You must keep them confidential. You may not use them in any other business or provide them or copies of them to any person other than your employees. You must return them to us if your franchise agreement is terminated or expires.

There are no current material determinations of, or proceedings pending in the United States Patent and Trademark Office, the U.S. Copyright Office, or any court regarding any of our copyrights discussed above.

There are no agreements currently in effect which limit your right to use any of our copyrights. As of the date of this disclosure document, we are unaware of any infringing uses of or superior previous rights to any of our copyrights which could materially affect your use of them.

You must notify us immediately when you learn about an infringement of or challenge to your use of the copyrights. MRI will take any action we think appropriate and, if you have given us timely notice and are in full compliance with the Franchise Agreement and proper use of the copyrights, we will indemnify you for all expenses and damages arising from any claim challenging your authorized use of the copyrights. We have the right to control any administrative proceedings or litigation involving the copyrights licensed by us to you. You must fully cooperate with us in defending and/or settling the litigation.

During the term of this Agreement, you may have access to and become acquainted with our Confidential Information, which includes but is not limited to the Trade Secrets (meaning all customer lists, sales and advertising and promotional information, employee lists, financial information furnished or disclosed to Franchisee by Franchisor, the Software, training and educational materials, the Brand Standards Materials, and other information with respect to Franchisor, the MRI 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), and, methods, processes, customer lists, vendor partnerships and/or relationships, sales and technical information, costs, product prices and names, software tools and applications, website and/or email design, products, services, equipment, technologies and procedures relating to the operation of the Franchised Business; systems of operation, services, programs, products, procedures, policies, standards, techniques, requirements and specifications which are part of the System; the Brand Standards Materials; methods of advertising and promotion; instructional materials; marketing plans, business methods, research, development or know-how, any other information which we may or may not specifically designate as "confidential" or "proprietary", and the components of our System whether or not such information is protected or protectable by patent, copyright, trade secret or other proprietary rights. You agree that you will take all reasonable measures to maintain the confidentiality of all Confidential Information in your possession or control and that all such Confidential Information and Trade Secrets will remain our exclusive property. You may never (during the Initial Term, any Renewal Term, or after the Franchise Agreement expires or is terminated) reveal any of our confidential information to another person or use it for any other person or business. You may not copy any of our Confidential Information or give it to a third party except as we authorize in writing to you prior to any dissemination.

You must promptly tell us when you learn about unauthorized use of any Confidential Information. We are not obligated to take any action but will respond to this information as we think appropriate. We will indemnify you

for losses brought by a third party concerning your use, in strict compliance with the Franchise Agreement, of the Confidential Information.

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

A General Manager, which may be you or a person appointed by you, must directly supervise the Franchised Business on its premises and devote full time and effort to operation of the Franchised Business. The General Manager may be a principal of the member if member is an entity. A General Manager must attend and complete all training required of a member and sign a Confidentiality and Non-Competition Agreement prior to taking over as General Manager. The General Manager is not required to be a shareholder in the franchised business.

Any shareholder in the franchisee entity will be obligated to sign a personal guaranty and agree to accept all obligations of the Franchise Agreement. You are required to ensure all owners, members, shareholders, employees and others who work in the franchise, or who have access to confidential information agree to keep all confidential information confidential. MRI does not require a spouse, not involved in the operation of the Franchised Business, to enter a personal guaranty or confidentiality and non-compete agreement, however, MRI does reserve all rights under law in jurisdictions that allow for restrictions on competitive activities by spouses.

ITEM 16: RESTRICTIONS ON WHAT THE MEMBER MAY SELL

You must offer and sell all products and services which are a part of the System, and all products and services which we may incorporate into the System in the future. You may only offer those products and services which we have previously approved. There are no limits regarding to whom you may offer goods and services.

You may not use our Marks for any other business, and you may not conduct any business other than the MRINetwork franchise from your approved location. You cannot engage in any business other than your MRINetwork franchise that competes with your MRINetwork franchise, with MRI or our Affiliates, or with other MRINetwork members, whether such business is inside or outside of your Location.

We may add to, delete from, or modify the products and services which you can and must offer. You must abide by any additions, deletions and modifications, but only if the changes do not materially and unreasonably increase your obligations under the Franchise Agreement. There are no other limits on our rights to make these changes.

We may develop additional staffing-related services that you may offer and sell.

We may negotiate and enter into contracts with global account customers (“Global Account Customers”) to provide recruitment, search, and or contract staffing services. You may choose to service Global Account Customers but you are under no obligation to accept the proposed contract terms. We ask that you consult with us on any questions or concerns regarding the negotiated terms of service for Global Account Customer prior to servicing Global Account Customers outside of our Global Accounts Program. If you accept the terms offered, you agree to use your best efforts to provide services to the Global Account customer in a manner that conforms to the contract’s requirements. If you choose to provide these services, all standards of performance that may be required by the Global Account Customer or by the MRI System will apply. If, for any reason, the Global Account Customer 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.

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

THE FRANCHISE RELATIONSHIP

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

Length of the Franchise Term	Section 3	10 years including any partial year, if any, in which the Franchise Agreement begins.
Renewal or extension of the term	Section 3.2	Five to ten years; provided you meet the requirements for renewal; compliance with the franchise agreement, payment of all fees owed to MRI, entering into the then- current franchise agreement.
Requirements for you to renew or extend	Section 3.2, 3.3	Notice, compliance with Franchise Agreement, execute new Franchise Agreement that may have materially different terms and conditions than found in your original contract; execute a general release, a copy of which is attached as Exhibit E, comply with our then current training requirements and upgrade operations to our then current standards and methods.
Termination by you	Section 20.4, 20.5	Only during last year of initial term subject to buy out requirement of 15% of Gross Billings during immediate trailing twelve months with six months' written notice.
Termination by us without cause	None	N/A
Termination by us with cause	Section 20.1, 20.2, 20.3	
"Cause" defined – defaults which can be cured	Section 20.1	Default of obligations under the franchise agreement which include failure to pay any amounts when due and failure to comply with operational obligations set forth in the franchise agreement or operations manual.

<p>“Cause” defined – non-curable</p>	<p>Section 20.2</p>	<p>Defaults of obligations under the franchise agreement as defined in Sections 20.2 including Franchisee has not generated sufficient Gross Funds to pay a Gross Continuing Fee of at least three thousand dollars (\$3,000.00) within six (6) months following the Effective Date;</p> <p>Franchisee is declared bankrupt or judicially determined to be insolvent, or all or a substantial part of the assets of Franchisee or the Franchise 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;</p> <p>Franchisee abandons the Franchise Business by failing to operate for five (5) consecutive days during which Franchisee is required to operate the Franchise 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 Franchise Business;</p> <p>Franchisee has made any material misrepresentation relating to acquisition of the Franchise Business or to induce Franchisor to enter into this Agreement;</p> <p>Franchisee engages in conduct that, in Franchisor’s sole determination, materially and unfavorably reflects upon the operation and reputation of the Franchise Business or the System;</p> <p>Franchisee fails for a period of ten (10) days or such longer period as applicable Law may require, after notification of noncompliance, to comply with any federal, state, or local Law or regulation applicable to operation of the Franchise Business;</p> <p>after curing any failure described in <u>Section 20.1</u> Franchisee engages in the same noncompliance, regardless of whether such noncompliance is corrected after notice;</p> <p>Franchisee repeatedly fails to comply with one or more requirements of this Agreement regardless of whether corrected after notice;</p> <p>the Franchise Business is seized, taken over or foreclosed by a Governmental Authority 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;</p> <p>a levy of execution is made upon the Franchise Business or upon any property used in the Franchise Business and is not discharged within five (5) days after such levy;</p> <p>Franchisee, or any of its Principals, shareholders, members, officers, directors, or partners is convicted of, or pleads guilty or no contest to, any crime punishable as a felony or involving moral turpitude or immoral conduct;</p>
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		<p>Franchisee attempts to transfer the Franchise Business or make an assignment of this Agreement in violation of <u>Section 13</u> of this Agreement;</p> <p>in the event of death or incapacity, the surviving spouse, heirs, beneficiaries, devisees, or legal representatives fail to comply with the provisions of <u>Section 13.7</u>;</p> <p>Franchisee discloses, attempts to disclose, or threatens to disclose any of the Trade Secrets in violation of this Agreement;</p> <p>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;</p> <p>Franchisee fails to disclose to Franchisor the existence of a non-compete restriction applicable to Franchisee; or</p> <p>Franchisee or, if applicable, its Principals, shareholders, members, 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.</p>
Your obligations on termination/non-renewal	Section 21, 17.4	<p>Cease using trademarks, deidentify, cancel assumed name registrations, pay all sums owed immediately,</p> <p>, cease use of domain names and URLs, destroy all tangible copies of Trade Secret materials and delete all electronic copies of Trade Secret materials.</p> <p>Comply with post-termination obligations related to non-solicitation of clients for a period of two (2) years.</p>
Assignment of contract by us	Section 13.1	We may freely assign our rights and obligations under the franchise agreement.
“Transfer” by you - definition	Section 13.2	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.
Our approval of transfer by you	Section 13.2	We have the right to approve or disapprove all transfers.

Conditions for our approval of transfer	Section 13.6.2	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.
Our right of first refusal to acquire your business	Section 13.5	We can match any offer provided that HQ has the right to substitute the cash equivalent of any non-cash consideration in such offer
Our option to purchase your business	N/A	N/A
Your death or permanent disability	Section 13.7	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.
Non-competition covenants during the term of the franchise	Section 17	• Includes prohibition against owning or operating a "competing business" (a business engaged in the search, recruiting and/or placement of permanent or temporary employees, temporary staffing of skilled and/or unskilled personnel (including, without limitation, clerical, computer, technical, accounting, driving/transportation, and medical), employee leasing, or a related enterprise).
Non-competition covenants after the franchise is terminated or expires	Section 17.4	No association of any kind with a competing business for 24 months after the date of termination or expiration for any reason.
Modification of the agreement	Section 22.10	Must be in writing and signed by both parties.
Integration/merger clause	Section 22.11	The franchise agreement (with all exhibits and ancillary agreements) is the entire agreement between the parties.

Dispute resolution by mediation and/or litigation	Sections 22.7, 22.8, and 22.9	The parties must first attempt to negotiate any disputes. If unsuccessful, the parties agree to submit to arbitration in Berkeley County, South Carolina. The parties waive the right to file suit. Franchisor may sue for failure to pay fees, trademark misuse, or injunctive relief.
Choice of forum	Section 22	Berkeley County, South Carolina (subject to applicable state law).
Choice of law	Section 22	South Carolina (subject to applicable state law).

ITEM 18: PUBLIC FIGURES

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

ITEM 19: FINANCIAL PERFORMANCE REPRESENTATIONS

The Federal Trade Commission's Franchise Rule (16 CFR Part 436) 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 Executive Search Placement Information (207 out of 248 offices reporting) January 1, 2021 – December 31, 2021

Systemwide Placements Reported	6870
Systemwide Placement Fees Reported	\$179,006,622
Average Placement Fees	\$26,056.28
Median Placement Fees	\$21,000.00
Highest Placement Fee	\$189,151.20
Lowest Placement Fee	\$180.00
Average number of Placements per office	33

2022 Executive Search Placement Information (197 out of 205 offices reporting) January 1, 2022 – December 31, 2022

Systemwide Placements Reported	6352
Systemwide Placement Fees Reported	\$183,057,280
Average Placement Fees	\$28,940.86
Median Placement Fees	\$23,750.00
Highest Placement Fee	\$189,062.50
Lowest Placement Fee	\$196.34
Average Number of Placements per office	31.0

2023 Executive Search Placement Information (162 out of 204 offices reporting) January 1, 2023 to December 31, 2023

Systemwide Placements Reported	5,163
Systemwide Placement Fees Reported	\$106,991,512.48
Average Placement Fees	\$20,722.74
Median Placement Fees	\$20,000.00
Highest Placement Fee	\$202,135.83
Lowest Placement Fee	\$27.00
Average Number of Placements per office	25.3

2021 Contract Staffing Placement Information
(81 participating offices out of 248 member offices)
January 1, 2021 – December 31, 2021

Average Bill Rate for all contractors	\$78.49
Median Bill Rate for all contractors	\$63.00
Average Commission per billable hours	\$17.65
Median Commission per billable hours	\$14.69
Average Commission per office	\$227,567
Median Commission per office	\$31,903.17

2022 Contract Staffing Placement Information
(63 participating offices out of 205 member offices)
January 1, 2022 – December 31, 2022

Average Bill Rate for all contractors	\$85.44
Median Bill Rate for all contractors	\$60.00
Average Commission per billable hours	\$16.26
Median Commission per billable hours	\$11.75
Average Commission per office	\$180,983.56
Median Commission per office	\$42,984.17

2023 Contract Staffing Placement Information
(61 participating offices out of 204 member offices)
January 1, 2023 – December 31, 2023

Average Bill Rate for all contractors	\$113.82
Median Bill Rate for all contractors	\$76.20
Average Commission per billable hours	\$23.01
Median Commission per billable hours	\$12.80
Average Commission per office	\$154,504.69
Median Commission per office	\$17,269.43

Notes:

- Executive Search placements represent full-time permanent placements with franchisee clients.
- Not all franchisees are required to self-report placement activities. All franchisees who are required to self-report placement activities have been included.
- Contract Staffing represents placement of temporary contractors with franchisee clients. Franchisees are not required to offer contract staffing services. All franchisees who participated in contract staffing during the periods shown above are included.

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, MRI 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 (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

Table No. 1
Systemwide Outlet Summary
For years 2021, 2022, 2023

Outlet Type	Year	Outlets at the Start of the Year	Outlets at the End of the Year	Net Change
Franchised Outlets	2021	265	246	-19
	2022	246	203	-43
	2023	203	170	-33
Company Owned	2021	0	0	0
	2022	0	0	0
	2023	0	0	0
Total	2021	265	246	-19
	2022	246	203	-33
	2023	203	170	-33

Table No. 2
Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)
For years 2021, 2022, 2023

State	Year	Number of Transfers
California	2021	0
	2022	0
	2023	1
Missouri	2021	0
	2022	1
	2023	0
New Jersey	2021	1
	2022	0
	2023	1
North Carolina	2021	1
	2022	0
	2023	0
Ohio	2021	0
	2022	0
	2023	1
Wisconsin	2021	0
	2022	0
	2023	1
Tennessee	2021	0
	2022	1

	2023	0
Total	2021	2
	2022	2
	2023	3

TABLE 3- STATUS OF FRANCHISED OUTLETS FOR YEARS 2021, 2022, 2023

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations - Other Reasons	Outlets at End of Year
Alabama	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Alaska	2021	1	0	0	0	0	1	0
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
Arizona	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2
	2023	2	0	0	1	0	0	1
Arkansas	2021	2	0	0	1	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
California	2021	18	0	0	0	0	0	18
	2022	18	0	1	0	0	3	18
	2023	14	0	0	0	0	0	14
Colorado	2021	4	0	0	0	0	0	4
	2022	4	0	0	1	0	0	3
	2023	3	0	0	0	0	0	3
Connecticut	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Delaware	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
Florida	2021	28	0	0	0	0	3	25
	2022	25	1	0	1	0	3	22
	2023	22	1	0	5	0	0	18
Georgia	2021	9	0	0	0	0	0	9
	2022	9	1	0	0	0	2	8
	2023	8	2	1	0	0	0	9

Hawaii	2021	2	0	1	0	0	0	2
	2022	2	0	0	2	0	0	0
	2023	0	0	0	0	0	0	0
Idaho	2021	3	0	0	1	0	0	2
	2022	2	0	0	1	0	0	1
	2023	1	0	0	0	0	0	1
Illinois	2021	11	0	0	0	0	1	10
	2022	10	1	0	0	0	0	11
	2023	11	0	0	1	0	6	4
Indiana	2021	9	0	0	0	0	0	9
	2022	9	0	1	0	0	1	7
	2023	7	0	0	0	0	0	7
Iowa	2021	4	1	0	0	0	0	5
	2022	5	0	0	0	0	0	5
	2023	5	0	0	0	0	0	5
Kansas	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
Kentucky	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Louisiana	2021	4	0	0	0	0	0	4
	2022	4	0	0	1	0	0	3
	2023	3	0	0	0	0	0	3
Maine	2021	2	0	0	0	0	0	2
	2022	2	0	0	1	0	0	1
	2023	1	0	0	0	0	0	1
Maryland	2021	7	0	1	2	0	0	4
	2022	4	0	0	0	0	0	4
	2023	4	0	0	0	0	1 ¹	3
Massachusetts	2021	4	0	0	0	0	0	4
	2022	4	0	0	0	0	0	4
	2023	4	0	0	1	0	0	3

¹ This Franchisee, Search Consultants International, continues to operate the franchise in Los Angeles, CA.

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations - Other Reasons	Outlets at End of Year
Michigan	2021	10	0	0	0	0	1	9
	2022	9	0	0	0	0	0	9
	2023	9	0	0	1	0	0	8
Minnesota	2021	3	0	0	0	0	0	3
	2022	3	0	0	0	0	0	3
	2023	3	0	0	0	0	0	3
Mississippi	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
Missouri	2021	5	0	0	0	0	1	4
	2022	4	1	0	1	0	0	4
	2023	4	0	0	0	0	1	3
Montana	2021	0	1	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Nebraska	2021	3	0	0	0	0	0	3
	2022	3	0	0	1	0	1	1
	2023	1	0	0	0	0	0	1
Nevada	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
New Hampshire	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations - Other Reasons	Outlets at End of Year
New Jersey	2021	9	0	0	0	0	0	9
	2022	9	0	0	0	0	1	8
	2023	8	0	0	0	0	0	8
New Mexico	2021	2	0	0	0	0	0	2
	2022	2	0	0	1	0	0	1
	2023	1	0	0	0	0	0	1
New York	2021	10	0	2	0	0	0	8
	2022	8	0	1	1	0	1	5
	2023	5	1	0	0	0	0	6
North Carolina	2021	19	0	0	0	0	1	18
	2022	18	1	0	2	0	2	15
	2023	15	0	0	2	0	1	12
North Dakota	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
Ohio	2021	15	0	1	1	0	0	13
	2022	13	0	0	0	0	3	10
	2023	10	0	0	3	0	0	7
Oklahoma	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Oregon	2021	3	0	0	0	0	0	3
	2022	3	0	0	2	0	0	1
	2023	1	0	0	0	0	0	1

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations - Other Reasons	Outlets at End of Year
Pennsylvania	2021	11	0	0	0	0	1	10
	2022	10	0	0	1	0	3	6
	2023	6	0	0	0	0	1	5
Puerto Rico	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Rhode Island	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
South Carolina	2021	9	0	1	0	0	1	7
	2022	7	1	0	0	0	0	8
	2023	8	0	0	1	0	2	5
South Dakota	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
Tennessee	2021	8	0	0	0	0	0	8
	2022	8	1	0	0	0	1	8
	2023	8	0	0	0	0	1	7
Texas	2021	16	0	0	0	0	1	15
	2022	15	0	0	1	0	1	13
	2023	13	2	0	2	0	0	13
Utah	2021	2	0	0	0	0	0	2
	2022	2	0	0	0	0	0	2
	2023	2	0	0	2	0	0	0

State	Year	Outlets at Start of Year	Outlets Opened	Terminations	Non-Renewals	Reacquired by Franchisor	Ceased Operations - Other Reasons	Outlets at End of Year
Vermont	2021	0	0	0	0	0	0	0
	2022	0	0	0	0	0	0	0
	2023	0	0	0	0	0	0	0
Virginia	2021	3	0	0	0	0	0	3
	2022	3	0	0	1	0	0	2
	2023	2	0	0	2	0	0	0
Washington	2021	9	0	0	0	0	0	9
	2022	9	0	0	2	0	1	6
	2023	6	0	0	1	0	0	5
West Virginia	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	0	1
Wisconsin	2021	9	1	0	0	0	2	8
	2022	8	0	0	1	0	1	6
	2023	6	0	0	0	0	2	4
Wyoming	2021	1	0	0	0	0	0	1
	2022	1	0	0	0	0	0	1
	2023	1	0	0	0	0	1	0
Totals	2021	265	3	4	5	0	13	246
	2022	246	6	4	20	0	25	203
	2023	203	6	0	23	0	16	170

ITEM 21: FINANCIAL STATEMENTS

HQ MRI Corporation is a wholly owned subsidiary of HireQuest, Inc. Its financial statements, and the financial statements of its affiliates, are consolidated and reported as the financial statements of HireQuest, Inc. Attached are audited year-end financial statements of HireQuest, Inc. for the years ended December 31, 2023, December 31, 2022, and December 31, 2021.

HireQuest, Inc., the publicly traded parent of the franchisor, has unconditionally guaranteed the obligations of the franchisor. A copy of the guarantee is attached as Exhibit F-1.

ITEM 22: CONTRACTS

Copies of all the agreements regarding our franchise offering are attached as Exhibit A, Franchise Agreement. The Franchise Agreement includes (a) a nondisclosure and noncompetition agreement; (b) a computer services agreement; (c) a franchise payroll funding agreement; (d) a guaranty agreement; (e) an agreement to arbitrate franchisee disputes; (f) a collateral assignment of lease; (g) a collateral assignment of telephone numbers and listings; and (h) a back-office services agreement.

ITEM 23: RECEIPTS

You will electronically sign acknowledgement of your Receipt in Exhibit J at the very end of this disclosure document. Please sign the document electronically and save one for your records.



RECITATIONS.....	1
1. DEFINITIONS	2
2. GRANT AND LIMITATIONS	9
3. INITIAL TERM AND RENEWAL.....	12
4. LOCATION	13
5. FEES	15
6. REPORTING, INVOICING, PAYMENT, AND OTHER OBLIGATIONS.....	20
7. OBLIGATIONS OF FRANCHISOR	27
8. NEW OFFICE TRAINING	31
9. FRANCHISEE REPRESENTATIONS, WARRANTIES, AND COVENANTS	31
10. FRANCHISEE OPERATIONS	36
11. INSURANCE.....	39
12. TRADEMARKS	41
13. TRANSFER AND ASSIGNMENT.....	44
14. RELATIONS.....	48
15. INDEMNIFICATION.....	50
16. TRADE SECRETS.....	51
17. NON-COMPETITION, NON-SOLICITATION, CONFIDENTIALITY.	52
18. IMAGE AND OPERATIONS.....	54
19. COMPLIANCE WITH LAWS.....	55
20. TERMINATION.	57
21. RIGHTS AND OBLIGATIONS FOLLOWING TERMINATION	61

22.	ENFORCEMENT	62
22.	MULTIPLE ORIGINALS	67
22.	NOTICES AND PAYMENTS	67
	SCHEDULE 1 - LOCATIONS.....	S-1
	SCHEDULE 2 - PRINCIPALS	S-2
	EXHIBIT A - NONDISCLOSURE AND NONCOMPETITION AGREEMENT (FRANCHISEE).....	E-1
	EXHIBIT B - COMPUTER SERVICES AGREEMENT	E-3
	EXHIBIT C - FRANCHISE PAYROLL FUNDING AGREEMENT	E-12
	EXHIBIT D - GUARANTY AGREEMENT.....	E-17
	EXHIBIT E - AGREEMENT TO ARBITRATE FRANCHISEE DISPUTES.....	E-21
	EXHIBIT F - COLLATERAL ASSIGNMENT OF LEASE.....	E-25
	EXHIBIT G - COLLATERAL ASSIGNMENT OF TELEPHONE NUMBERS AND LISTINGS	E-33
	EXHIBIT H - BACK-OFFICE SERVICES AGREEMENT	E-39



**MANAGEMENT RECRUITERS INTERNATIONAL
FRANCHISE AGREEMENT**

This Agreement is entered into as of [DATE] (“**Effective Date**”) at Goose Creek, South Carolina, by and between HQ MRI Corporation, a Delaware corporation (“**MRI**” or “**Franchisor**”) with its principal place of business located at 111 Springhall Drive, Goose Creek, South Carolina, and [Franchisee] (“**Franchisee**”), a [STATE] [limited liability company/corporation], with its principal place of business located at [address]. Each of Franchisor and Franchisee may sometimes be referred to herein separately as a “**Party**” and, together, as the “**Parties.**” The Term Franchisor as used in this Agreement may include Affiliates of HQ MRI Corporation, as appropriate.

RECITATIONS

WHEREAS, Franchisor owns Trade Secrets (as hereinafter defined) relating to a unique system for providing a high-quality personnel placement and staffing business (the “**MRI System**”) which is identified by the Marks (as defined herein). The MRI 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, MRI, through its advertising and marketing programs, its high-quality service, and the MRI System, continues to develop, use, and control the use of the Marks to identify for the public the source of services and products marketed under the Marks and the MRI System and to represent the System’s high standards of quality and service.

WHEREAS, Franchisee understands and acknowledges the importance of MRI’s high and uniform standards of quality and service, and the necessity of operating the business franchised in this Agreement in conformity with Franchisor’s standards.

WHEREAS, Franchisee has decided to enter into this Agreement because Franchisee desires to operate a high-quality personnel placement and staffing business utilizing the MRI System. Franchisee understands and accepts the terms, conditions, and covenants contained in this Agreement as being reasonably necessary to maintain MRI’s high standards of quality and service and, thereby, to protect and preserve the goodwill of the Marks and other intellectual property licensed to Franchisee in this Agreement or which may be added to the System from time to time.



The Parties, in consideration of the promises, undertakings, and commitments of each Party to the other set forth in this Agreement, and intending to be legally bound hereby, mutually 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.

“Back Office Services” shall mean those services provided by Franchisor to Franchisee, more fully described in Section 7.6.

“Back Office Services Fee” shall mean nine hundred fifty dollars (\$950.00) per month payable from Franchisee to Franchisor in exchange for the Back Office Services.

“Brand Standards Materials” shall mean the Franchisor’s confidential Brand Standards Materials, containing the Trade Secrets, including, without limitation, specifications, standards, and procedures by which the Franchise Business shall be conducted so as to comply in all respects with the MRI brand standards, as amended from time to time.

“Cap Rate” shall mean an hourly rate determined solely by Franchisor subject to economic factors and other conditions. The Cap Rate may be adjusted by Franchisor in its sole discretion at any time.

“Claims” shall mean and include all obligations arising from services, sales, or other business in connection with the Franchise Business (hereinafter defined) including, without limitation, payments due to Franchisor under this Agreement or otherwise; actual, punitive, liquidated,



and consequential damages; losses, liabilities, deficiencies, actions, judgments, settlements, interest, awards, penalties, fines, costs, or expenses of whatever kind; in addition to all costs reasonably incurred in defense of any claim against Franchisor, or any of its affiliates or representatives, 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.

“Contingent Contract Staffing Continuing Fees Credit” shall mean a monetary amount equal to the sum of 4.5% of Contract Staffing Payroll for all Contract Staffing Payroll where the hourly pay rate to an employee exceeds the Cap Rate but only to the extent the hourly pay rate to such employee exceeds the Cap Rate. For clarification, Contingent Contract Staffing Continuing Fees Credit does not include or accrue on any portion of Continuing Fees due on Contract Staffing Payroll for the portion of the hourly pay rate to an employee which does not exceed the Cap Rate.

“Continuing Fee Increase” shall have the meaning ascribed to it in [Section 5.1.2](#).

“Continuing Fees” shall mean Contract Staffing Continuing Fees and Recruiter Continuing Fees, collectively.

“Contract Staffing Billing Threshold” means one million five hundred thousand dollars (\$1,500,000.00).

“Contract Staffing Continuing Fees” shall mean a monetary amount equal to the sum of 4.5% of Contract Staffing Payroll plus 18% of the Gross Margin for temporary and contract employee staffing of the Franchise Business.

“Contract Staffing Gross Billings” shall mean gross amount of all invoices issued to clients resulting, directly or indirectly, from or in connection with all services, consultation, assistance, or sales provided from, or through, or attributable to the Contract Staffing Services (as opposed to Recruiter Services) of the Franchise 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 employees, excluding *bona fide* refunds and adjustments.



“Contract Staffing Payroll” shall mean all gross wages funded by Franchisor or its affiliate on behalf of Franchisee.

“Contract Staffing Receivables” shall mean all receivables generated at the Franchisee’s Location(s) from Contract Staffing Services, which receivables shall be the exclusive property of the Franchisor.

“Contract Staffing Services” shall mean all activities associated with the provision of temporary or contract employee placement services.

“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).

“Direct Deposit Service Fee” means twenty five dollars (\$25.00) per month.

“Effective Date” shall have the meaning given to it in the Preamble to this Agreement.

“Family Member” shall mean any child, grandchild, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law of a person.

“Franchise Business” shall mean the business operated pursuant to this Agreement and the Franchise License.

“Franchisee’s Contract Staffing Share” shall mean a monetary amount equal to the Gross Margin (hereinafter defined) after deducting therefrom the Contract Staffing Continuing Fees payable to Franchisor, the adjustments described in Section 5 of this Agreement, and any other amounts due Franchisor under this Agreement or otherwise. The Franchisee’s Contract Staffing Share shall be calculated during each Accounting Period commencing on the date of the opening of the Franchise Business.

“Franchisee’s Gross Share” shall mean the aggregate of Franchisee’s Contract Staffing Share and Franchisee’s Recruiter Share.

“Franchisee’s Recruiter Share” shall mean a monetary amount equal to the Net Cash In (hereinafter defined) after deducting the Recruiter Continuing Fees payable to Franchisor,



the adjustments described in Section 5 of this Agreement, and any other amounts due Franchisor under this Agreement or otherwise.

“Franchise License” shall mean the right and license granted pursuant to this Agreement to use the Marks, the Brand Standards Materials, and the MRI System only and exclusively for the operation of an MRI Franchise 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 including, without limitation, all Contract Staffing Receivables and all Recruiter Receivables.

“Franchisor” shall mean HQ MRI Corporation, a Delaware corporation. The term Franchisor as used in this Agreement may include Affiliates of HQ MRI Corporation, as appropriate.

“General Manager” shall mean the person primarily responsible to coordinate and manage the Franchise Business for Franchisee and who will devote full time to the coordination and management thereof.

“Global Account Customers” shall mean any customer designated as such by Franchisor, based upon Franchisor’s sole determination that, because such customer conducts its business in multiple locations, jurisdictions, states, or countries the account of such client or customer shall be negotiated and secured either (i) by Franchisor or (ii) with Franchisor’s assistance and approval.

“Global Business Conference” shall mean a meeting of MRINetwork Franchisees to be held from time to time at Franchisor’s discretion which may or may not include owners from other brands owned, operated, or franchised by Franchisor or its Affiliate.

“Governmental Authority” shall mean any federal, state, local, or foreign government or political subdivision thereof, or any agency or instrumentality of such government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority or quasi-governmental authority (to the extent that the rules, regulations, or orders of such organization or authority have the force of Law), or any arbitrator, court, or tribunal of competent jurisdiction.



“Gross Continuing Fees” shall be the sum total of Contract Staffing Continuing Fees and Recruiter Continuing Fees.

“Gross Funds” shall mean the sum of Contract Staffing Gross Billings and Net Cash In.

“Gross Margin” shall mean sums billed by Franchisor to customers of the Franchise Business on account of Contract Staffing Services after deducting therefrom all Temporary and Contract Employee Expenses attributable to temporary and contract employees.

“Guarantor” shall mean an individual or corporate entity who shall guaranty the performance of all of Franchisee’s obligations pursuant to this Agreement and shall become a party to the Guaranty Agreement attached hereto as Exhibit D.

“Initial Franchise Fee” shall mean forty thousand dollars (\$40,000.00) which Franchisee shall pay to Franchisor pursuant to the terms and conditions of Section 5.

“Initial Term” shall commence on the Effective Date of this Agreement and, unless terminated sooner shall expire on December 31st of the tenth (10th) full calendar year following the Effective Date of this Agreement.

“Jump Start Fee” means five thousand dollars (\$5,000.00).

“Law” shall mean any statute, law, ordinance, regulation, rule, code, order, constitution, treaty, common law, judgment, decree, other requirement, or rule of law of any Governmental Authority.

“Legacy Territories” shall have the meaning given to that term in Section 4.3.

“Location” shall mean the office (hereinafter defined) from which the Franchise Business shall be conducted. The Location shall be at the address set forth in Schedule 1 attached hereto.

“Marketing and Public Relations Fee” shall mean a monetary amount equal to 0.5% of Gross Funds.



“Marks” shall mean certain trade names, services marks, trademarks, logos, emblems, and indicia of origin, including but not limited to the federally registered service marks: “Management Recruiters,” “MR,” “MRI,” and “MRINetwork,” “MRI Contract Staffing,” and such other trade names, service marks, and trademarks as are now designated and may be designated or substituted by Franchisor for use in connection with the System.

“Minimum Annual Continuing Fee” or **“MACF”** means twelve thousand dollars (\$12,000.00) per calendar year.

“New Office Training” means that training described in Section 8.

“Net Cash In” means the total amount of all Recruiter Receivables which are collected less only sales and use taxes collected for payment to the relevant taxing authority. Net Cash In shall also include all receipts of Franchisee or any of its affiliates from any business in which Franchisee or the affiliate may engage in violation of any obligation contained in this Agreement.

“Non-Compliance Termination Fee” means fifteen thousand dollars (\$15,000.00).

“Non-Mark Businesses” shall mean search, recruitment, 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 Franchise Business.

“Recruiter Continuing Fees” shall mean a continuing fee on any Net Cash in the following amounts:

- Nine percent (9%) on the first five hundred thousand dollars (\$500,000.00) of Net Cash In;
- Seven percent (7%) on Net Cash In from five hundred thousand and one dollars (\$500,001.00) to one million dollars (\$1,000,000.00);
- Five percent (5%) on Net Cash In from one million and one dollars (\$1,000,001.00) to two million dollars (\$2,000,000.00);
- Three percent (3%) on Net Cash In that exceeds two million and one dollars (\$2,000,001.00).



Net Cash In targets are applied each calendar year beginning with the first full calendar year following the Effective Date for the period January 1 through December 31.

“Recruiter Receivables” shall mean all receivables generated at the Franchisee’s Location(s) from Recruiter Services, which receivables shall be the exclusive property of the Franchisor.

“Recruiter Services” shall mean the performance of search, placement, recruiting, outplacement, and management consulting services, and any other similar training, human resource, salary surveys or analysis, or other similar business.

“Secondary Name” shall mean an additional name (in addition to the MRI marks) of Franchisee’s choosing that does not incorporate any of the MRI Marks that Franchisee may utilize in operation of the Franchise Business subject to Franchisor’s approval, in its sole and absolute discretion, and any conditions attached thereto.

“Security Deposit” means fifteen thousand dollars (\$15,000.00).

“Software” shall mean computer software required to be used in connection with the management and operation of the Franchise Business.

“Successive Agreement” shall mean a franchise agreement between Franchisor, or any successor or assign, and Franchisee for the Franchise Business, commencing immediately following the expiration of the Initial Term of this Agreement subject to the terms of Section 3, and shall, at the option of Franchisor, continue for succeeding ten (10) year terms.

“System” shall mean Franchisor’s unique and distinctive personal placement service and staffing business, the “MRINetwork,” MRI’s standards, methods, marketing, training, and assistance using its confidential business practices and policies, the Brand Standards Materials, MRI’s quality standards, instructional materials, and other training courses.

“Temporary and Contract 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, sick pay, and vacation pay as described in the Brand Standards Materials, 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 and or contract employees furnished by the Franchise Business during the term of this Agreement.

“Term” shall mean the Initial Term plus all terms under any Successive Agreements.

“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, training and educational materials, the Brand Standards Materials, and other information with respect to Franchisor, the MRI 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.

“Transfer” shall mean any conveyance of more than 50% of the ownership of the Franchise Business, whether by stock purchase, change in business form, merger, consolidation, transfer of stock or voting power of Franchisee, sublicense, or sale of the Franchise Business to a third party.

“Transfer Fee” means five thousand dollars (\$5,000.00).

2. GRANT AND LIMITATIONS

2.1. **Franchise License.** Franchisor grants to Franchisee and Franchisee accepts, upon the terms and conditions contained herein, a Franchise License to operate the Franchise Business, using only the Marks licensed hereunder which may be changed, improved, and further developed by Franchisor or its Affiliates from time to time. This grant applies only to the non-exclusive Location selected by the Franchisee and approved by Franchisor, which is more particularly described in Section 4, herein, and in Schedule 1, attached hereto.



- 2.2. Secondary Name.** Based on the unique characteristics of the placement and staffing industry, Franchisor grants Franchisee the right to use a Secondary Name provided that Franchisor has first approved the Secondary Name in writing. The approval of the Secondary Name will be within Franchisor’s sole and absolute discretion. Franchisor may condition the use of Secondary Name by Franchisee on any conditions it deems necessary or advisable. Franchisee may use the Marks, and the Secondary Name in such manner and under such circumstances as Franchisor may determine from time to time. Franchisee acknowledges and agrees that the Secondary Name is used solely for the operation of the Franchise Business and agrees that upon termination of this Agreement, for any reason, it must cease use of the Secondary Name in the same manner as it must cease use of the Marks, as more fully described in Section 12, herein.
- 2.3. Non-Infringement of Secondary Name.** Franchisee acknowledges that Franchisor does not conduct a trademark search to determine if Franchisee’s Secondary Name infringes on the trademarks or service marks used by another. It is Franchisee’s sole responsibility to ensure that its use of a Secondary Name does not infringe on any other party’s trademarks or service marks. In the event Franchisee learns of any infringing activity involving the Secondary Name, Franchisee must immediately notify Franchisor and cease use of the Secondary Name.
- 2.4. Display of Affiliation.** Franchisee will display in its office, in any email signature, and on any website, social media account, and other marketing materials the statement “A Member of the MRINetwork” or such other designation as Franchisor may require in its sole and absolute discretion.
- 2.5. License Only.** The Parties hereto acknowledge that this Agreement and the rights granted herein are a license only, that Franchisee is acting independently in Franchisee’s own business and is not authorized to act for or on behalf of Franchisor or any of its Affiliates, and that Franchisor is not authorized to direct the day-to-day operations of Franchisee’s business or the acts of Franchisee’s agents or employees. None of the acts or commitments of Franchisee shall in any manner bind or obligate Franchisor or any of its Affiliates.
- 2.6. RESERVATION OF RIGHTS.** Franchisor reserves all rights not expressly granted to Franchisee in this Agreement. Except as otherwise provided herein, without limiting the generality



of the foregoing, Franchisor reserves the right, without geographic limitation of any kind, to:

- sell products and services authorized for Franchise Businesses, using the Marks or other trademarks, service marks, and commercial symbols;
- operate and grant to others the right to operate Franchise Businesses under such terms and conditions as Franchisor deems appropriate;
- operate and grant franchises to others to operate Non-Mark Businesses, wherever located, specializing in the sale of products or provision of search and recruitment services, and/or temporary personnel placement services, including businesses that are the same or similar to your Franchise 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.
- provide billing, collecting, payroll, insurance, accounting services, and financing of receivables to other firms including firms similar to your Franchise Business; and
- negotiate and enter into contracts with Global Account Customers to provide services offered on a regional, national, or other specialty basis. Franchisor shall have no obligation to offer any contract with any Global Account Customer to Franchisee, and, if it does, 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 Global Account Customer locations. If another of Franchisor's franchisees, a designated contractor, or if we ourselves provide Global Account Customer services to any Global Account Customer, whether or not that contract was offered to Franchisee, Franchisor, or its agent, may employ the same trademark and service marks as are granted to Franchisee under this Franchise Agreement, or any other trade names or service marks Franchisor designates. If Franchisee elects to provide the services, all standards of performance that may be required by the Global Account Customer or by the MRI System shall apply. If, for any reason, the Global Account Customer 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. With or without such consultation, however, the Franchisor may direct that either the Franchisor or a third party may provide the services.



3. INITIAL TERM AND RENEWAL

3.1. Initial Term. The Initial Term shall commence on the Effective Date of this Agreement and, unless terminated sooner pursuant to Section 20, shall expire on December 31 of the tenth (10th) full calendar year following the Effective Date of this Agreement.

3.2. Successive Terms - Franchisee's Option. Subject to the conditions of this Section 3, 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 a form satisfactory to Franchisor, of all claims against Franchisor, its Affiliates, and each of their respective officers, directors, employees, agents, attorneys, and insurers Franchisee shall have the option to enter into a successive agreement (the "**Successive Agreement**"). The terms and conditions of the Successive Agreement, 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 the formulas calculating the levels of Continuing Fees and other fees payable by Franchisee (exclusive of fees based on workers' compensation claims, unemployment claims, or other fees imposed by any Governmental Authority or insurer which is passed through by Franchisor to Franchisee) 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 formulas calculating the Continuing Fees which were in effect for the immediately preceding term adjusted by the annual increase in the CPI. The Term of each such Successive Agreement shall be a term of at least five (5) years agreed upon by the Parties. 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.

3.3. 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.

3.4. Successive Terms - Franchisor's Responsibilities. Upon receipt of Franchisee's notice if its desire to enter into a Successive Agreement, Franchisor shall determine whether Franchisee has fully complied with and is in full compliance with this Agreement to Franchisor's sole satisfaction. If so, Franchisor shall then deliver to Franchisee (i) a form of 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 (collectively, the "**Successive Term Agreements**"). Each of these agreements shall be modified, as necessary, to conform to Section 3.2 hereof.

3.5. Successive Terms - Franchisee's Responsibilities. Franchisee shall execute the Successive Term Agreements 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 Successive Term Agreements within thirty (30) days of receipt 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 Materials, Franchisee shall adhere at all times during the Initial Term or any Successive Term to the most up-to-date standards.

3.6. Additional Reservation of Rights. Franchisor reserves the right not to renew this Franchise as a result of a decision to withdraw from a marketing area or the state or territory in which Franchisee's business is located. In the event Franchisor withdraws, it will notify Franchisee of its decision in writing. Thereafter, Franchisee will be allowed to continue to operate a competitive business and will be granted sixty (60) days following receipt of Franchisor's notice of withdrawal to cease use of the Marks.

4. LOCATION

4.1. Location. This Agreement grants Franchisee the right to operate the Franchise Business from a single non-exclusive Location identified on Schedule 1, attached hereto, which must be approved by Franchisor in its sole discretion. Franchisee shall not operate or permit any other party to operate any business other than the Franchise Business out of the Location. Franchisee agrees and acknowledges that this Agreement does not grant Franchisee any exclusive territory.



4.1.1. Site Selection. Franchisor has the right to approve a site for the operation of a Franchise Business Location, which consent shall not be unreasonably withheld.

4.1.2. Time to Open. Franchisee acknowledges that time is of the essence in this Agreement. Franchisee must complete all preparations for the Franchise Business, including but not limited to the purchase of all necessary materials needed to operate the Franchise Business and open the business no more than sixty (60) days following completion of New Office Training. If Franchisee fails to meet all pre-opening obligations, Franchisor may prohibit Franchisee from opening the business upon written notice to Franchisee.

4.2. Failure to Open. Franchisee's failure to open the Franchise Business and commence business in accordance with this Section 4 is a material default of this Agreement. In the event the failure to open continues for more than ninety (90) days following completion of New Office Training, Franchisor has the right, but not the obligation to terminate this Agreement and all of Franchisee's rights thereunder and retain all monies paid to Franchisor by Franchisee, as well as any and all other rights and remedies of Franchisor on Franchisee's default, whether provided by this Agreement or by Law.

4.3. Relocation. Franchisee may not relocate the Franchise Business without Franchisor's written approval of the new location. Franchisee acknowledges that MRI, in the past, granted exclusive territories and some of these territories may still exist within the MRINetwork (the "**Legacy Territories**"). Franchisor will not deny relocation unless, in its sole judgment, such relocation would be a violation of another Franchisee's territorial rights. In the event a Franchisee seeks to relocate into any of the Legacy Territories, Franchisee acknowledges that it may be required to make payment of a supplemental royalty over and above the Continuing Fees described in Section 5, which supplemental royalty will be paid, in full, by Franchisor to the owner of the Legacy Territory. The decision whether a relocation into a Legacy Territory may occur is solely at the Legacy Territory owner's discretion.

4.3.1. Relocation Amendment. If Franchisee's request is approved, Franchisee agrees to sign a relocation amendment identifying any terms or conditions of the relocation and confirming the new location for the Franchise Business. Franchisee's relocation will be at Franchisee's sole expense. In the event of a relocation, Franchisee will, prior



to the relocation, remove any signage or other property from the original Location which identified the original Location as part of the System.

4.3.2. Supplemental Royalty. If Franchisee relocates the Franchise Business without Franchisor's approval, Franchisee will reimburse Franchisor for any supplemental royalty Franchisor is required to pay to the Legacy Territory owner for the remaining term of this Franchise Agreement.

4.4. Location Visit. Franchisor has the right, but not the obligation, to enter the Location premises during normal business hours to inspect the operations of the Franchise Business, provide training and support, review records, and conduct other activity it deems necessary to foster and confirm compliant operation of the Franchise Business.

4.5. Maintenance of Location. Franchisee will maintain the Franchise Business and Location to the standards of safety, sanitation, repair, and condition required by all applicable Laws governing the Location or any applicable provision of the Brand Standards Materials.

5. FEES

5.1. Initial Franchise Fee.

5.1.1. Establishment of Initial Franchise Fee. Franchisee shall pay to Franchisor the Initial Franchise Fee. **The Initial Franchise Fee is fully earned upon execution of the Franchise Agreement and is not refundable under any circumstances.** The Initial Franchise Fee shall be payable as set forth in Section 5.2. Franchisee acknowledges and agrees that the grant of this franchise and the rights and obligations of the Parties under this Agreement constitute the sole and only consideration for the Initial Franchise Fee and that such consideration is adequate.

5.1.2. Initial Franchise Fee Payment. Franchisee shall pay to Franchisor the entirety of the Initial Franchise Fee contemporaneously with the execution of this Agreement, *provided, however*, that in Franchisor's sole discretion, certain qualified franchisees may be allowed to pay the Initial Franchise Fee via a deduction from Franchisee's Contract Staffing Share and Franchisee's Recruiter Share of 2% of all Franchise Receivables (the "***Continuing Fee Increase***") until the earlier of the date that the



entirety of the Initial Franchise Fee is paid to Franchisor and the date that is one hundred fifty-six (156) weeks following the Effective Date (the “**Initial Fee Collection Period**”). If Franchisor allows payment via the Continuing Fee Increase, and if at the end of the Initial Fee Collection Period there remains any portion of the Initial Franchise Fee unpaid, Franchisee shall immediately pay the remainder of the Initial Franchise Fee to Franchisor. Notwithstanding the previous sentence, if Franchisee has aggregate Franchise Receivables of at least four hundred thousand dollars (\$400,000.00) in the third year following the Effective Date, Franchisee may elect to continue to pay the Initial Franchise Fee pursuant to the 2% Continuing Fee Increase until the date that the entirety of the Initial Franchise fee is paid to Franchisor.

5.1.3. Initial Franchise Fee Contract Staffing Incentive. If Franchisor allows payment via the Continuing Fee Increase, and if Franchisee has aggregate Contract Staffing Gross Billings which exceed the Contract Staffing Incentive Billing Threshold before paying the Initial Franchise Fee in full pursuant to the Continuing Fee Increase, Franchisor shall waive the remainder of the Initial Franchise Fee.

5.2. Recruiter Continuing Fees, Collection Expenses, Marketing and Public Relations, Security Deposit. Franchisee’s Recruiter Share shall be calculated by deducting from the Net Cash In collected during each Accounting Period the following amounts:

- the Recruiter Continuing Fees;
- Franchisee’s pro-rata share of all legal and other out-of-pocket collection expenses incurred by Franchisor related to Franchise Receivables;
- at Franchisor’s discretion, any other amounts owed by Franchisee to Franchisor or any of its Affiliates, provided such amounts are disclosed to Franchisee;
- the Marketing and Public Relations Fee;
- the Back Office Services Fee; and
- 1% of Gross Funds until the entire Security Deposit is collected.

Franchisor has no obligation to pay Franchisee’s Recruiter Share on any uncollected Franchisee Receivables including, without limitation, uncollected Contract Staffing Receivables.



5.3. Contract Staffing Continuing Fees, Uncollectibles, Collection Expenses, Marketing and Public Relations, Security Deposit. Following the end of each Accounting Period, Franchisee’s Contract Staffing Share shall be calculated by deducting from Gross Margin the following amounts:

- the Contract Staffing Continuing Fees;
- to the extent that Contract Staffing Receivables remain uncollected beyond forty-two (42) days after the invoice date (“**Forty-Two Day Period**”), a delinquency fee of one-half of one percent ($\frac{1}{2}\%$) of the amount of such uncollected Contract Staffing Receivables for each fourteen (14) day period following said Forty-Two Day Period;
- the full-face amount of Contract Staffing 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;
- Franchisee’s pro-rata share of all legal and other out-of-pocket collection expenses incurred by Franchisor related to Franchise Receivables;
- at Franchisor’s discretion, any other amounts owed by Franchisee to Franchisor or any of its Affiliates, provided such amounts are disclosed to Franchisee;
- the Marketing and Public Relations Fee;
- the Back Office Services Fee; and
- 1% of Gross Funds until the entire Security Deposit is collected.

5.4. Contingent Continuing Contract Staffing Fee Credit, Recovery of Uncollectibles. Following the end of each Accounting Period, Franchisee’s Contract Staffing Share shall be increased by the following amounts:

- Contingent Contract Staffing Continuing Fee Credit(s) billed during the applicable Accounting Period; and
- any payments that are received during the Accounting Period on account of Contract Staffing Receivables previously deemed uncollectible (or which remained uncollected beyond eighty-four (84) days after the invoice date).



5.5. Minimum Annual Continuing Fee.

5.5.1. Establishment of Minimum Annual Continuing Fee. Franchisee shall pay the Minimum Annual Continuing Fee ("**MACF**") each calendar year to the extent the Gross Continuing Fees paid to Franchisor in the calendar year immediately preceding do not exceed the MACF.

5.5.2. Commencement. The MACF will begin on the first day of the first full calendar year after the Effective Date of this Agreement and continue for each succeeding calendar year thereafter through the Expiration Date as described in Schedule 1 to this Agreement. In the event this Agreement is entered into as a Successive Agreement, the MACF will become effective on the Effective Date. The payment of any monies due for failure to meet the MACF will be paid by Automated Clearing House ("**ACH**") electronic transfer to an account provided in writing by Franchisor on or before April 1 of each year.

5.5.3. MACF Upon Termination. In the event of termination of this Agreement for default, prior to the Expiration Date, Franchisee shall be responsible for payment of the MACF for the remaining term of this Agreement, unless otherwise waived by Franchisor in writing.

5.6. Other Fees. In addition to the Initial Franchise Fee and the Continuing Fees described above, the following other fees shall be due to Franchisor from Franchisee upon the terms and conditions set forth in this Section 5.6:

5.6.1. Marketing and Public Relations Fee. During the Term of the Agreement, Franchisee shall pay to Franchisor the Marketing and Public Relations Fee.

5.6.2. Back Office Services Fee. During the Term of the Agreement, Franchisee shall pay to Franchisor the Back Office Services Fee.

5.6.3. Late Fee. 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 Franchise Business and shall not be construed as such.

- 5.6.4. Overdue Report Fee. If any report due from Franchisee, whether described in Section 6, Section 19.6, or otherwise, is not received by Franchisor as required by this Agreement, Franchisee shall pay to Franchisor a late fee of fifty dollars (\$50.00) per week for each week that the report is not received. This late fee is reasonably related to the costs resulting from the delay in payment and/or receipt of any late report and is not a penalty. It is in addition to any other remedy available to Franchisor under this Agreement.
- 5.6.5. Interest. Any and all amounts that are unpaid at the time they are due and owing from Franchisee to Franchisor under the terms of this Agreement will bear interest from the date due until paid at the rate of 1.5% per month, or the highest rate permitted by Law, whichever is lower.
- 5.6.6. Additional Training Fee. Franchisor may charge an additional training fee for optional classroom training. Such fee will be based on the type of training, duration, and other factors. The price will be published prior to your attendance.
- 5.6.7. National Vendor Programs. From time-to-time, there may be fees related to National Vendor Programs that are paid to and/or for a third-party vendor. In the event Franchisee chooses to participate in a National Vendor Program and the vendor requires payment directly from Franchisor, Franchisee agrees to make its payment for such third-party vendor services directly to Franchisor in accordance with the requirements of the vendor and instructions of Franchisor.
- 5.6.8. Annual Owners Meeting Registration Fee. Franchisee is required to attend the annual owners meeting and to make payment of the registration fee in an amount to be determined annually. If Franchisee does not attend the annual owners meeting, it will still be obligated to make payment of this fee. This fee will be reasonably related to the cost of attendance at the annual meeting.
- 5.6.9. Transfer Fee. In the event of any Transfer, Franchisee will pay a Transfer Fee. Payment of the Transfer Fee shall be made at the time of any Transfer. In the event



of a Transfer to a Family Member of a Franchisee, the Transfer Fee shall be waived.

5.6.10. Jump Start Fee. In the event Franchisee is entering into this Agreement as the result of a Transfer, Franchisee shall pay Franchisor, in lieu of the Initial Franchise Fee, the Jump Start Fee to cover the costs of training and other onboarding expenses.

5.6.11. Non-Compliance Termination Fee. In the event Franchisor terminates this Agreement within nine (9) months of the Effective Date pursuant to Section 20.2, Franchisee shall pay Franchisor a Non-Compliance Termination Fee.

5.6.12. Direct Deposit Service Fee. Franchisee shall pay to Franchisor the Direct Deposit Service Fee each month for Franchisor's processing of direct deposits for Franchisee.

5.6.13. Additional Fees. At Franchisor's discretion, any other amounts owed by Franchisee to Franchisor or any of its Affiliates, provided such amounts are disclosed to Franchisee.

6. REPORTING, INVOICING, PAYMENT, AND OTHER OBLIGATIONS

6.1. Recruiter Services Reporting, Invoicing, and Payment. Franchisee must report all Recruiter Services and Net Cash In of the Franchise Business for every Accounting Period in such a manner as may be directed by Franchisor, regardless of whether Franchisee has produced any Franchise Receivables or Net Cash In for the Accounting Period. Such reports must be made in compliance with the following terms and conditions:

6.1.1. Time of Reporting-Recruiter Services. Franchisee must report all Recruiter Services activity into Franchisor's payroll and billing system before the end of the Accounting Period immediately following the *earlier* of the following two dates: (i) the date on which the candidate is hired, and (ii) the date on which the end client owes a fee (*e.g.* for a retained search, the client may incur a fee to you *before* any candidate is located and hired).

6.1.2. Invoicing Recruiter Services. Franchisor shall invoice customers for all Recruiter Services provided by the Franchise Business and shall collect all payments made by



customers for all Recruiter Services provided by the Franchise Business (including liquidation/conversion 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 Recruiter Services provided by the Franchised Business. Franchisee shall endeavor in good faith to collect all billings made by Franchisor to customers of the Franchise Business and, in performing such work, shall apply substantially the same collection procedures and policies as are set forth in the Brand Standards Materials. **The payments and Franchise Receivables that arise from all Recruiter Services provided by the Franchise 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 Franchise Receivables for Franchisee's uses for any period of time shall not be tolerated under any circumstances; indeed, converting Franchise 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 Franchise Receivables, Franchisor may report the matter to local law enforcement authorities.

6.1.3. Payment of Recruiter Share. As long as this Agreement remains in effect and Franchisee is not in default hereunder, Franchisor will pay to Franchisee Franchisee's Recruiter Share on the Wednesday following the end of the Accounting Period during which Franchisor actually collects of such Franchise Receivable. Franchisor has no obligation to pay any Franchisee Recruiter Share to Franchisee unless and until payment is received by Franchisor and all applicable fees set forth in Section 5 have been paid. If that Wednesday is a banking holiday, then Franchisor will pay to Franchisee's Recruiter Share on the next business banking day. Upon termination of this Agreement, the final payment of the Franchisee's Recruiter 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 Recruiter Share, if any, as determined in accordance with Section 5 hereof; and (ii) Franchisor shall assign to Franchisee any remaining Franchise Receivables.



6.2. Contract Staffing, Invoicing, Payment, and Other Obligations.

6.2.1. Employment of Temporary and Contract Employees. Temporary and contract employees shall be employees of the Franchisor or its designated Affiliate, and Franchisor or its designated Affiliate shall pay all Temporary and Contract Employee Expenses, subject to full reimbursement from collections of Franchise Receivables; provided that if any of the temporary employees or the Franchise 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.

6.2.2. Billings and Collections-Contract Staffing Services. Franchisee shall enter all billing and payroll information for temporary and contract employees on a timely basis into Franchisor's billing and payroll system. Franchisor shall bill customers for all Contract Staffing Services provided by the Franchise Business and shall collect all payments made by customers for all Contract Staffing Services provided by the Franchise 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 Contract Staffing Services provided by the Franchise Business. Franchisee shall endeavor in good faith to collect all billings made by Franchisor to customers of the Franchise Business and, in performing such work, shall apply substantially the same collection procedures and policies as are set forth in the Brand Standards Materials. **The payments and accounts receivable that arise from all regular and temporary employee placement services provided by the Franchise 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.

- 6.2.3. Payment of Franchisee's Contract Staffing Share. As long as this Agreement remains in effect and Franchisee is not in default hereunder, Franchisor will pay to Franchisee Franchisee's Contract Staffing 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 hereof; and (ii) Franchisor shall assign to Franchisee any remaining Franchise Receivables.
- 6.2.4. Unemployment Claims. If, in Franchisor's sole determination, Franchisee fails to cooperate with Franchisor or its Affiliate in handling unemployment insurance claims for temporary and contract employees, 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 or contract employees furnished by the Franchise Business during the term of this Agreement.
- 6.2.5. Commercial General Liability Insurance. Franchisor, in its sole discretion, may provide a Commercial General Liability Insurance policy covering the actions of the temporary or contract 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 the Franchise Business. Franchisor shall not be required to maintain all insurance coverages required by clients of the Franchised Business. In its sole discretion, Franchisor may obtain such additional insurance and, in such event, Franchisee shall advance or reimburse Franchisor for all premium and other expenses associated with such additional insurance.
- 6.2.6. Determination of Workers' Compensation Classification. Franchisor shall determine the workers' compensation classification of temporary and contract employees, 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.

6.2.7. Determination of Franchisor Deemed Conclusive. All determinations which under this Section 6 which 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.

6.2.8. Franchisee's Contract Staffing Obligations. The following terms and conditions shall apply to the Franchise Business and Franchisee's performance of Contract Staffing Services:

6.2.8.1. *Recruitment and Screening of Temporary and Contract Employees*. Franchisee shall only recruit and fill temporary and contract staffing assignments in the following general work categories: executive, management, administrative, professional, technical, and sales, and such other categories as may from time to time authorized by Franchisor in writing in each instance. Franchisee shall exercise its best efforts to recruit, screen, interview, test, hire, train, indoctrinate, assign, place, and dispatch temporary and contract employees on behalf of Franchisor in strict compliance with all applicable local, state, and federal Law, including, without limitation, all Laws related to wage and hour, employment discrimination, and illegal immigration. Prior to placement of any temporary employee through the Franchise Business, Franchisee shall obtain from such temporary or contract employee a current application for employment, all other forms required by applicable Law, including, without limitation, Laws relating to immigration status in the United States, and all other forms required by Franchisor, each 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 Materials or otherwise. Notwithstanding anything herein to the contrary, Franchisee shall not complete or submit job applications for temporary or contract 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. Franchisee may use, but is not required to use (unless required by applicable Law), the E-Verify System for the employment of core staff employees of the Franchise Business. Franchisee shall be solely responsible at its own cost for verification that temporary or contract employees have any and all credentials required by clients including, without limitation, professional licenses and appropriate results of background and reference checks.

- 6.2.8.2. *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 uncollectible accounts receivable in calculating Franchisee's Gross Share.

6.2.8.3. *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 Franchise 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 \$200.00 per day that an injured worker is not provided appropriate light duty work.

6.3. Nature of Collections Relationship. Franchisee shall endeavor in good faith to collect all billings made by Franchisor for Franchise Receivables, 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, invoicing, collection, and other arrangements described in this Agreement.

6.4. 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.

6.5. Application of Payments. Franchisor shall have the right to apply any payment(s) received from Franchisee or any client 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).

6.6. Transmittal of Payments. Franchisee shall immediately forward to Franchisor, without any deduction of any kind, any payment received by Franchisee from clients representing payment of any portion of any Franchise Receivables or any other billings made by Franchisor.

7. OBLIGATIONS OF FRANCHISOR

7.1. Brand Standards Materials. Franchisor shall provide Franchisee with electronic access to Brand Standards Materials. The Brand Standards Materials are and shall remain, at all times, the property of Franchisor. Franchisee agrees that it will comply with all obligations set forth in the Brand Standards Materials and acknowledges that the Brand Standards Materials may be changed from time to time, in Franchisor’s sole and absolute discretion. Franchisee agrees to comply with all changes to the Brand Standards Materials immediately upon publication. Franchisee may not share Brand Standards Materials or access to its online platform with anyone other than employees and managers of the Franchise Business or use them for any other purpose besides the operation of the Franchise Business. Franchisee acknowledges that the Brand Standards Materials are Trade Secrets of Franchisor.



7.2. Support. Franchisor shall provide the Franchisee ongoing support and consultation as needed for operation of the Franchise Business.

7.3. Onboarding. Franchisor shall advise and instruct the Franchisee in the equipment and procedures necessary to locate and set-up the Franchise Business.

7.4. Training. Franchisor shall provide New Office Training, as set forth in Section 8, to Franchisee. Franchisor may edit, amend, or change any of its training programs, including, without limitation, the New Office Training.

7.5. Post-Opening Assistance. Franchisor shall provide post-opening assistance and consultation via telephone or in person at the Location at the sole and absolute discretion of Franchisor.

7.6. Back Office Services. In exchange for the Back Office Services Fee, Franchisor shall provide Franchisee the following services:

- updates to and maintenance of Franchisor’s billing and payroll system;
- invoicing customers for Recruiter Services and Contract Staffing Services;
- accounts receivable and cash receipts application services;
- basic accounting assistance including preparation of monthly profit and loss statements and balance sheets for the Franchise Business;
- collections assistance including calls and demand letters, *provided, however*, that Franchisee shall bear ultimate responsibility for collections;
- accounts payable assistance including payment of regular monthly, quarterly, and annual vendor invoices (which amounts Franchisee will advance to Franchisor) on behalf of Franchisee; and
- optional liaison services between Franchisee and any professional employment organization or similar organization Franchisee selects to assist with benefits and payroll administration of internal staff.

7.7. Marketing and Public Relations Consultation. Franchisor shall provide Franchisee with consultation and guidance on marketing and public relations for the promotion of the Franchise Business in the sole and absolute discretion of Franchisor.



7.8. Marketing and Public Relations Fund. Franchisor shall administer the Marketing and Public Relations Fund in accordance with the following terms and conditions:

- 7.8.1. Marketing and Public Relations Fund Established. Franchisor has established a Marketing and Public Relations Fund (the “**MPRF**”) on behalf of the System to provide marketing, advertising, public relations services, materials, and training, as well as meetings and events to support the MRINetwork. Franchisor shall direct all advertising and marketing programs and have sole discretion and ownership interests in and to the creative concepts, materials, and media used in such programs and the placement and allocation thereof.
- 7.8.2. Uses of MPRF. The MPRF may be used to meet costs of maintaining, administering, directing, conducting, and preparing marketing, public relations, meeting support, and/or promotional programs and materials, supporting technology and any other activities which Franchisor believes, in its sole business judgment, will enhance and improve the image of the MRINetwork. In addition, The MPRF may be used to defray expenses, such as reasonable costs and overhead related to the direction and implementation of the MPRF and marketing and public relations programs.
- 7.8.3. Non-Proportionate Expenditures. Franchisor shall have no obligation to make expenditures that are equivalent or proportionate to Franchisee’s MPRF contribution or to ensure that Franchisee benefits directly or pro-rata from the production or placement of advertising, marketing, or promotional materials from the MPRF.
- 7.8.4. Annual Statements. Franchisor shall prepare an unaudited annual statement of the MPRF’s operations which shall be available to Franchisee upon reasonable written request.
- 7.8.5. Termination of MPRF. Franchisor may terminate the MPRF at any time and for any reason, or no reason at all. Franchisor will not terminate the MPRF, however, until all monies in the MPRF have been expended.

7.9. Website. Franchisor shall maintain a website at MRINetwork.com or such other domain as Franchisor, in its sole and absolute discretion, shall choose and will include the



Franchise Business in its directory of Franchisees available to the public on such website. All information posted on such website shall be subject to Franchisor's approval, in Franchisor's sole discretion, prior to posting. Franchisee has no ownership or other proprietary rights to such.

- 7.10. Approved Vendor Program.** Provide a list of approved vendors and negotiate vendor discounts for use by Franchisees in the Franchise Businesses. Franchisor may change vendors or systems if, in its sole discretion, it determines that alternate vendors, products or systems are better suited to the support of the MRINetwork. Franchisee acknowledges that while Franchisor makes reasonable efforts to offer advantageous vendor discounts, Franchisor cannot and does not guarantee the availability of any particular vendor discounts.
- 7.11. Rebates.** If Franchisor receives any cash rebates, volume discounts, concessions, advertising allowances, or discount bonuses (collectively "**Discounts**"), whether by way of cash, kind, or credit, from any vendor designated by Franchisor, whether or not on account of purchases made (i) by Franchisor for its own account or for Franchisee's account, or Franchisees generally, or (ii) by Franchisee directly for its own account, Franchisor is entitled to retain the benefits of such Discounts and is not required to reimburse or share such funds with Franchisee.
- 7.12. Electronic Payroll Funding.** Franchisor may facilitate use of direct deposit and electronic pay card services for temporary and contract employee payroll. If Franchisor facilitates such a program, Franchisee shall be required to use such services pursuant to the terms and conditions of a Payroll Funding Agreement ("**PFA**") in a form acceptable to Franchisor and with similar substance to Exhibit C attached hereto, to be executed contemporaneously with the execution of this Agreement. Franchisee shall utilize the electronic payroll services in the operation of the Franchise Business as set forth in the PFA and the Brand Standards Materials. Franchisee shall duly perform all of its obligations under the PFA and a default under the PFA shall constitute a default under this Agreement. In the event of a permitted assignment of this Agreement, the PFA shall be assigned to the assignee of this Agreement.



8. NEW OFFICE TRAINING

8.1. Attendance at New Office Training. Prior to opening its office, Franchisee must attend at Franchisee's expense, and successfully complete to Franchisor's satisfaction, New Office Training. Should Franchisee not successfully complete New Office Training, Franchisor may, in its sole discretion, require Franchisee to retake training or participate in such supplemental training as Franchisor determines, in its sole discretion, is necessary to successfully complete training, to Franchisee's benefit. Franchisor will provide Franchisee with all materials necessary for the New Office Training and access to Franchisor's online training resources. Franchisee must work directly with the trainer(s) assigned to Franchisee.

8.2. Attendance at Required Trainings. Franchisee must participate in all other training programs which Franchisor designates as mandatory or necessary in its discretion. Such trainings, while they may provide an in-person option, shall be conducted through web-based e-learning, conference training, and coaching.

8.3. Additional Training. Franchisor will provide additional training through its online training resources, one-on-one consultation either by telephone, face-to-face or video as determined by Franchisor, and company sponsored events and meetings. In the event Franchisee operates from a home office, Franchisor will not provide face-to-face meetings.

9. FRANCHISEE'S REPRESENTATIONS, WARRANTIES, AND COVENANTS

9.1. Corporate Representations. If Franchisee is a corporation, partnership, limited liability company, or other legal entity, Franchisee and each shareholder, director, and officer (collectively, the "**Principals**") described in Schedule 2 to this Agreement represent, warrant, and covenant that:

- Franchisee is duly organized and validly existing under the Law of the state of its formation;
- Franchisee is duly qualified and authorized to do business in the jurisdiction of the Location and in every other jurisdiction in which applicable Law requires it to be duly qualified and authorized;



- Franchisee’s organization documents do now and will at all times provide that the activities of Franchisee are confined exclusively to the operation of the Franchise granted herein, unless otherwise consented to in writing by Franchisor, which consent may be withheld by Franchisor in its sole discretion;
- the execution of this Agreement and the consummation of the transactions contemplated in this Agreement are within Franchisee’s power and have been duly authorized by Franchisee;
- copies of Franchisee’s organizational documents, other governing documents, resolutions, or consents of the governing board authorizing entry into and performance of this Agreement, and any certificates, buy-sell agreements or other documents restricting the sale or transfer of equity interests in Franchisee, and any other documents as may be reasonably required by Franchisor will be furnished to Franchisor;
- the ownership interests in Franchisee are accurately and completely described on Schedule 2 of this Agreement and, if Franchisee intends to amend or change such ownership, it will inform Franchisor at least thirty (30) days prior to such proposed change;
- if Franchisee is a corporation, Franchisee does now and shall at all times in the future maintain stop-transfer instructions against the transfer on its records of any of its equity securities. Each stock certificate must conspicuously state, in a form satisfactory to MRI, that it is held subject to all restrictions on assignments imposed by this Agreement; provided, however, that the requirements of this Section do not apply to the transfer of equity securities of a publicly held corporation. For purposes of this Agreement, a publicly held corporation is a corporation registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, or a corporation subject to the requirements of Section 15(d) of such Act. If Franchisee is a partnership or limited liability company, its written partnership or limited liability company operating agreement does now and shall at all points in the future provide that ownership of an interest in such entity is held subject to all restrictions on assignments imposed by this Agreement;
- Franchisee now has and shall at all times in the future maintain sufficient working capital to fulfill its obligations under this Agreement. Franchisee and each Guarantor will, upon written request, provide Franchisor with their most recent financial statements and tax returns. Each of the financial statements and tax returns are to be certified as true, complete, and correct and must be prepared in conformity with U.S. GAAP applied on a consistent basis. No material liabilities,



adverse claims, commitments, or obligations of any nature exist as of the date of this Agreement, whether accrued, unliquidated, absolute, contingent or otherwise, that are not reflected as liabilities on the financial statements of Franchisee or Principals; and

- each Principal having a 10% or greater share in the Franchisee will personally execute and bind himself or herself to the Franchisee Nondisclosure and Noncompetition Agreement and the Guaranty Agreement, in the forms of Exhibit A and Exhibit D to this Agreement, respectively. Each Principal shall jointly and severally guarantee Franchisee's performance of all of Franchisee's obligations, covenants, and agreements under this Agreement, and otherwise bind themselves to the terms of this Agreement as stated herein, pursuant to the terms and conditions of the Nondisclosure and Noncompetition Agreement and Guaranty Agreement.

9.2. Best Efforts. Franchisee covenants and agrees that it will devote its full time and best efforts to operate the Franchise Business so as to achieve optimum business results. Franchisee shall commit at least 32 hours per week solely to the operation and success of the Franchise Business.

9.3. Appointment of General Manager. Franchisee, or one of Franchisee's Principals, shall be designated as the General Manager. If Franchisee or Franchisee's Principals cannot act as General Manager, Franchisee must hire a General Manager to direct the operation and management of the Franchise Business. Franchisee shall designate its General Manager to Franchisor in writing prior to attending Training. The General Manager must, during the entire period as General Manager, meet the following qualifications:

- the General Manager will meet Franchisor's standards and criteria for such individual, as set forth in writing by Franchisor and will be an individual otherwise acceptable to Franchisor in its sole discretion;
- the General Manager will devote his or her full time and best efforts to the supervision and management of the Franchise Business and may not engage in any other business activity without Franchisor's consent, which may be withheld in Franchisor's sole discretion; and
- the General Manager will satisfy the training requirements set forth in Section 8 herein.

If the General Manager is not able to continue to serve in such capacity, or no longer qualifies to act as such in accordance with this Agreement, Franchisee will promptly notify Franchisor and designate a replacement within thirty (30) days after the General Manager ceases to serve, or such time granted by Franchisor upon request for extension. Such replacement will be subject to the same qualifications required by this Agreement (including, but not limited to, completing all training and obtaining all certifications required by Franchisor). Any Principal who meets the qualifications may serve as General Manager.

9.4. Compliance with Brand Standards Materials. Franchisee agrees to comply with the Brand Standards Materials as modified from time to time, and all directives, rules, and procedures specified by Franchisor, and will, among other things:

- maintain and operate the Franchise Business in good condition in a proper and businesslike manner;
- comply with all applicable governmental Laws, ordinances, rules, and regulations, including prompt payment of taxes when due;
- adhere to the highest standards of honesty, integrity, fair dealing, and ethical conduct in all dealings with other Franchisees, customers, clients, vendors, and Franchisor;
- employ only qualified individuals who are trained in accordance with Franchisor's standards and who will at all times conduct themselves in a competent and courteous manner in accordance with this Agreement and the image and reputation of the System. Franchisee shall use its best efforts to ensure that its employees render competent and courteous service to all customers and clients. Franchisee acknowledges and agrees that poorly trained employees and incompetent or discourteous service are extremely damaging to the goodwill of the System and the Marks and are a material default of this Agreement;
- prominently display on all marketing materials, websites, and upon any signage or office location the term "A Member of the MRINetwork," or such other term as Franchisor approves, in the manner and form prescribed by Franchisor within thirty (30) days of the execution of this Franchise Agreement;
- conduct all advertising programs in a dignified manner that will not detract, in Franchisor's sole discretion, from the reputation of the System or the Marks;
- cease use of any advertising programs or materials within twenty-four (24) hours of receipt of written notice from Franchisor to do so;



- offer all and only such services as may from time to time be approved and/or required by Franchisor;
- only use the Marks as they relate to the System and then only as previously approved by Franchisor; and
- Comply with the MRI Code of Conduct, as may be amended from time to time.

9.5. Legal Compliance. Franchisee shall comply with all federal, state, and local Laws, rules, regulations, and ordinances, and timely obtain any and all permits, certificates, or licenses necessary for the full and proper conduct of the Franchise Business. Such Laws, rules, and regulations will include, without limitation, licenses to do business, fictitious name registrations, sales and other tax permits, and any permits, certificates, or licenses required by any federal, state, or local Law, rule, or regulation, and any other requirement, rule, Law, or regulation of any federal, state, or local jurisdiction. Franchisee shall pay all taxes and other fees owed to any federal, state, or local government when due.

9.6. Claims. Franchisee will notify Franchisor in writing within three (3) calendar days of the commencement of any action, suit, or proceeding and of the issuance of any order, writ, injunction, award or decree of any court, agency, or other Governmental Authority, in any way relating to or affecting the operation or financial condition of the Franchisee or the Franchise Business.

9.7. Further Assurances. Following execution of this Agreement, Franchisee shall, and shall cause its Principals and Guarantors to, execute and deliver such additional documents, instruments, conveyances, and assurances and take such further actions as may be reasonably required to carry out the provisions hereof and give effect to the transactions contemplated by this Agreement.

9.8. Continuing Obligation. Franchisee and each Principal acknowledge and agree that the representations, warranties, and covenants set forth in this Section 9 are continuing obligations of Franchisee and each Principal, as applicable, and that any failure to comply with such representations, warranties, and covenants constitutes a material event of default under this Agreement. Franchisee and each Principal will cooperate with Franchisor in any efforts made by Franchisor to verify compliance with such representations, warranties, and covenants.



10. FRANCHISEE OPERATIONS

10.1. Operation of Franchise Business. All persons employed or retained by Franchisee to assist with the day-to-day operations of the Franchise Business (and not the temporary or contract employees) are the employees or agents of Franchisee and not Franchisor. Franchisee shall disclose this relationship all persons employed or retained by Franchisee for such purposes and will ensure that all materials provided to applicants for such positions prominently state: **This business is an independently owned and operated franchise of the MRINetwork. You are not an employee or agent of our franchisor, HQ MRI Corporation.**

10.2. Bookkeeping and Reports. Franchisee agrees to keep and maintain complete and accurate books and records of its transactions and business operations utilizing generally accepted accounting principles in the United States ("**U.S. GAAP**") consistently applied. Franchisee agrees to maintain the records and accounts of the Franchise Business throughout the term of the Franchise Agreement and any renewals thereof, and for a period of three years following termination of the franchise agreement, for any reason.

10.2.1. Furnished Statements. Within thirty (30) days after a request by Franchisor, Franchisee will furnish Franchisor with a full and complete set of financial statements including a balance sheet, statement of income, and statement of cash flow for the Franchise Business as of the most recently completed fiscal year and fiscal quarter all prepared in compliance with U.S. GAAP.

10.2.2. Audit. Franchisor has the right at all reasonable times, and up to twelve months after the expiration or termination of this Agreement, to examine or audit, at its expense, Franchisee's books, records, financial statements, bank statements, tax returns, and other documents Franchisor determines it requires for conducting the audit. Franchisee shall provide Franchisors with copies of all materials requested in the manner requested, including by electronic means, at Franchisee's expense. If Franchisor's examination finds that any report or representation made by Franchisee to Franchisor was understated or inaccurate, Franchisee shall reimburse Franchisor for the cost of the examination, which will be at a minimum, one thousand dollars (\$1,000.00). Franchisee must also make payment of any and all amounts due as a result of the understatement or misrepresentation along with interest as described in this Agreement within five (5) business days following



completion of the audit. Underreporting and misrepresentation is a material default of this Agreement. Three (3) understatements or misrepresentations of any amount during the term of this Agreement may, at the option of Franchisor, be considered an incurable default and thereby subject to termination as provided herein.

10.3. Computer Systems.

10.3.1. Required Hardware and Software. Franchisee, at Franchisee's expense, shall install and maintain billing and payroll software, management software, and computer hardware and software which Franchisor requires for the operation of the Franchise Business. Franchisee shall execute a Computer Services Agreement, in the form attached as Exhibit B.

10.3.2. Future Required Software. Franchisor may require Franchisee, at Franchisee's sole expense, to enter into software license agreements in the form and substance that Franchisor requires for software Franchisor develops or acquires for use in the System, including but not limited to, invoicing, billing, time management, timeclock, and applicant tracking software.

10.3.3. Internet Access and E-mail. Franchisee shall have and maintain adequate hardware and software capable of accessing and shall maintain access to high speed Internet. Franchisee shall maintain and regularly access and check an electronic mail account. Franchisee shall read all electronic mail related to the Franchise Business on a daily basis and shall accept and acknowledge receipt of all electronic mail sent by Franchisor.

10.3.4. Website. Franchisee will maintain a website with information regarding the Franchise Business. All information posted on such website shall be subject to review and removal by Franchisor at Franchisor's option. Franchisee will not retain any ownership or proprietary rights in and to the website which shall be the exclusive property of Franchisor, and Franchisee will relinquish all credentials to Franchisor to access and edit the website upon termination of this Agreement.

10.3.5. Responsibility for Payment. Franchisee shall pay all fees and expenses for technology used in the Franchise Business, including but not limited to, the costs of computer hardware and software, Internet access, license fees, help desk fees,



licensing or user-based fees for a franchise portal or a benchmarking platform, web site design and hosting, and fees related to exposure on Franchisor's website.

10.4. Franchisor Job Board. Franchisor may, at its option, develop and maintain one or more job boards servicing the MRINetwork and any other franchisees of Franchisor or external third parties. In the event Franchisor elects to maintain such a job board, Franchisee shall post all job openings for the Franchised Business on said job board.

10.5. Sole Approved Vendors. Franchisee agrees and acknowledges that in order to ensure continuity and compliance with the System, Franchisor may approve a vendor as the only provider of a particular good or service. If Franchisor designates an approved vendor as the sole source of a good or service, unless waived by Franchisor in writing, Franchisee agrees to use such vendor as the sole source of a good or service.

10.6. Variations in Standards. Notwithstanding anything to the contrary contained in this Agreement, and this Section 10 in particular, Franchisee acknowledges and agrees that because complete and detailed uniformity under many varying conditions may not be possible or practical, Franchisor specifically reserves the right and privilege, at its sole discretion and as it may be deemed in the best interests of all concerned in any specific instance, to vary performance standards for some Franchisees based upon the peculiarities and characteristics of the particular franchise or circumstance, business potential, existing business practices or any other condition which Franchisor deems to be of importance to the successful operation of such particular franchise. Franchisor has full rights to vary standard practices for any other franchisee at any time without giving Franchisee comparable rights. Franchisee will not be entitled to require Franchisor to disclose or grant to Franchisee a like or similar variation.

10.7. National Vendor Programs. Franchisor may contract with national vendors for products and services for the Franchise Businesses ("**National Vendor Programs**"). Franchisee agrees to participate in National Vendor Programs unless it opts out within fourteen (14) business days of notice of Franchisor's intent to contract with a national vendor. If Franchisee does not opt out of a National Vendor Program, Franchisee shall be included in the program. Franchisee must notify Franchisor no later than thirty (30) days prior to the expiration of the national vendor agreement if it wishes to be excluded from any renewal of any National Vendor Program. In the event that the contract with a national vendor requires Franchisor to make full payment of fees directly to the national



vendor, Franchisee agrees to make payment of its pro rata share, based on the number of participating Franchisees, to Franchisor immediately on demand.

11. INSURANCE

11.1. Franchisee Insurance. Franchisee shall acquire and maintain, throughout the Term of this Agreement, and at its own expense, insurance coverage of the type and amounts set forth in this Section 11.

11.2. Coverage Requirements. Insurance coverage must comply with the requirements of the Brand Standards Materials, which Franchisor, in its sole discretion, may amend upon sixty (60) days written notice. Franchisee shall not reduce the policy limits, restrict coverage, cancel, or otherwise alter or amend these policies without Franchisor's prior written consent. The current coverage requirements include, and Franchisee must obtain:

- COMMERCIAL GENERAL LIABILITY including bodily injury and property damage liability for premises and operations, contractual liability, personal injury liability and, if applicable, stop gap coverage in the amount of \$1,000,000.00 each occurrence and \$2,000,000.00 annual aggregate;
- BUSINESS AUTOMOBILE LIABILITY if Franchisee is a corporate entity that owns a vehicle: including bodily injury and property damage liability for owned, leased, non-owned, and hired autos used in the Franchise Business in the amount of \$1,000,000.00 each accident;
- WORKERS' COMPENSATION with the statutory minimum limits set by applicable Law, unless the Laws of Franchisee's state do not require this coverage for sole proprietors;
- EMPLOYER'S LIABILITY in the amount of \$500,000.00 or statutory minimum limits, whichever is greater;
- PROPERTY including "all-risk" coverage on all real and personal property owned, leased, or rented by Franchisee as well as business income and extra expense coverage. This insurance shall be written for the replacement cost of Franchisee's real and personal property and on an actual loss sustained basis for the business income and extra expense;
- ERRORS AND OMISSIONS in the amount of \$1,000,000.00 per claim and annual aggregate;

- EMPLOYMENT PRACTICES LIABILITY in the amount of \$1,000,000.00 per claim and annual aggregate. This insurance is required regardless of whether or not Franchisee has employees;
- COMMERCIAL BLANKET EMPLOYEE DISHONESTY BOND including coverage for any ERISA plans in the amount of \$100,000.00 or 10% of the ERISA plan assets, whichever is greater, if Franchisee has employees;
- LICENSE BOND if required by applicable Law;
- UNEMPLOYMENT COMPENSATION with the statutory minimum limits set by applicable Law unless Franchisee is a sole proprietor and the state Law in Franchisee's state does not require this for sole proprietors.
- Any and all other types and limits of insurance that may be required, from time to time, by Franchisor or applicable Law.

11.3. Policy Requirements. All insurance policies covering the Franchise Business must:

- name Franchisor as an additional insured, *provided, however*, that this requirement shall not apply to any policy for which only an employer may be named as an insured, such as workers' compensation;
- contain no provision that in any way limits or reduces coverage for the Franchisee below the aggregate limits provided in the policy in the event of a claim by any one or more of the Indemnitees;
- waive any rights of recovery the insurance companies may have against Franchisor;
- be primary to and without right of contribution from any other insurance purchased by or on behalf of Franchisor;
- be in an amount and form satisfactory to Franchisor, but, in no event, in amounts less than stated in Section 11.2; and
- have a deductible or self-insured retention of \$10,000.00 or less.

11.4. Certificate of Insurance. Franchisee shall submit a certificate of insurance evidencing each policy listed in Section 11.2 to Franchisor prior to Franchisee's commencement of New Office Training and annually within ten (10) days of Franchisor's request.



11.5. Reimbursement of Costs. If Franchisee fails to obtain or maintain any policy of insurance required by Section 11.2 or fails to name Franchisor as an additional insured on any such policy, Franchisor may obtain such insurance, and Franchisee shall reimburse Franchisor for the cost of such insurance within fifteen (15) calendar days after Franchisor sends an invoice to Franchisee.

12. TRADEMARKS

12.1. Non-Exclusive License. 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 Franchise 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 Affiliates, 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 Term of this Agreement, all provisions of this Agreement which apply to the Marks shall apply equally to all such additional marks and symbols.

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

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

- 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;
- 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; and
- 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 Franchise Business at a level of quality commensurate with that provided at other franchised locations.

- 12.4. 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 and any Secondary Name approved in writing by Franchisor. 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.
- 12.5. 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.
- 12.6. 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 12. 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.
- 12.7. 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, but in no case more than



sixty (60) days after notice, 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.

12.8. Indemnification. So long as Franchisee's use of the Marks complies with the terms of this Agreement, including, without limitation, this Section 12, and the Brand Standards Materials, 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.

12.9. Reservation of Rights. Franchisee acknowledges that Franchisor has and retains these rights, among others:

- to use the Marks itself in connection with selling products and services;
- to grant other licenses for the Marks, in addition to those licenses already granted to existing Franchisees;
- to grant other rights in, to, and under the Marks in addition to those rights already granted, and to develop, acquire, and grant rights in other names and marks on any terms and conditions that Franchisor deems appropriate, including, without limitation, the name and service marks "MRI," "MR," "Management Recruiters," and "MRINetwork," and any Secondary Name for the operation of offices at the Location and outside the Location; and
- to develop and establish other systems using the same or similar Marks, or any other Marks, and to grant licenses or franchises thereto without providing any rights therein to Franchisee.

12.10. Use of Marks on Internet. Prior to Franchisee's use of the Marks, Franchisor must approve Franchisee's domain names, URLs, and electronic addresses if they contain any



of the Marks or any portion or derivative of the Marks. Franchisee must cease use of domain names, URLs, and electronic addresses which contain any of the Marks or any portion or derivative of the Marks upon expiration or termination of the Franchise Agreement.

13. TRANSFER AND ASSIGNMENT

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

13.2. By Franchisee. Franchisee understands and acknowledges that the rights and duties created by this Agreement are personal to Franchisee and its Principals 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 and its Principals. 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 13. Any assignment or transfer without such approval shall constitute a breach of this Agreement and shall convey no rights or interest in the Franchise Business to such purported assignees or transferees. The only permissible methods of sale, transfer or assignment of the Franchise Business are those set forth in this Section 13.

13.3. Change of Business Form. Whether or not an assignment or transfer of the Franchise 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.

13.4. 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 Principals 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 13. 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 13.

13.5. Franchisor's Right of First Refusal. If Franchisee desires to sell or otherwise transfer the Franchise 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 Franchise 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 Franchise 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 Franchise 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. 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 13.5.

13.6. 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:

13.6.1. 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:

- such entity's charter shall provide that its activities are confined exclusively to operating the Franchise Business as set forth in this Agreement;
- Franchisee shall be, and shall remain, the owner of the majority stock interest in the transferee corporation or limited liability company;
- 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;
- 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;
- 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;
- 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
- all accrued money obligations of Franchisee to Franchisor, its Affiliates or assignees, shall be satisfied prior to assignment or transfer.

13.6.2. Other Transfers. If the transfer, other than such transfer authorized under Section 13.6.1, as consummated alone or together with other related previous, simultaneous, or proposed transfers, would have the effect of transferring control of the Franchise Business to someone other than an original signatory of this Agreement:

- the proposed assignee(s) or, if the proposed assignee is a corporation or limited liability company, its principal officers, shareholders, franchisees, partners, 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;

- the proposed assignee(s) shall expressly assume in writing, for Franchisor's benefit, all Franchisee's obligations under this Agreement;
- the proposed assignee(s) shall have completed the training program and additional evaluation to Franchisor's sole subjective satisfaction, as described in Section 8;
- 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;
- Franchisor shall require the proposed assignee(s), including all of the principal officers, shareholders, franchisees, partners, and directors 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 Franchise 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;
- 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.

13.6.3. Covenants Not to Compete Unaffected. No sale, assignment, transfer, conveyance, encumbrance, or gift of any interest in this Agreement, or in the Franchise Business, shall relieve Franchisee, and as applicable, its Principals, shareholders, or partners participating in any transfer, of the obligations of the covenants not to compete contained in Section 17 of this Agreement.

13.7. Assignment in Case of Death or Incapacity. If, as applicable, Franchisee, or Franchisee's majority stockholder, owner, franchisee, 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 three (3) 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 Franchise 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 MRI franchise in accordance with the requirements of this Section 13.7 or sell, transfer, or assign such participant's ownership interest in Franchisee, or, if applicable, this Agreement and the Franchise Business to a person who satisfies the Franchisor's then-current standards for new franchisees of Franchisor.

13.8. Assignment to Original Signatory. If, as a result of the death or incapacity of a shareholder, owner, franchisee, or partner of Franchisee, all of the deceased or disabled party's interest in this Agreement or the Franchise 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 Franchise Business pursuant to the terms of this Agreement.

13.9. Unauthorized Transfers Void. Any Transfer which occurs outside the manner described in this Section 13 is void and shall be of no force or effect.

14. RELATIONS

14.1. 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:

- wages and benefits;
- employee personnel issues;
- the number of employees needed to perform a job or task;
- employee work hours, schedules, work week length, and shift hours;
- employee grievances, including administration of any applicable collective-bargaining agreement;
- authorizing overtime;

- general workplace, and safety, rules and standards;
- production standards;
- break and/or lunch periods;
- assignment of work and determination of job duties;
- work instructions relating to the means and manner to accomplish a job or task;
- training employees or establishing employee training requirements;
- vacation and holiday leave and pay policies;
- discipline;
- discharge;
- hiring; or
- 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 corporate parents, and all of their respective 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.

14.2. 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 Franchise 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.

14.3. 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 Franchise 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 Franchise 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.

14.4. Consent. Franchisee acknowledges and agrees that Franchisor may grant franchises to other franchisees to operate Franchise 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.

15. INDEMNIFICATION

15.1. Indemnification Obligations. Franchisee shall indemnify, defend, and hold harmless Franchisor, Franchisor's corporate parents, and all of their respective subsidiaries, affiliates, insurers, shareholders, directors, officers, employees, agents, attorneys, successors in interest, and assignees against any loss, damage or expense (including attorneys' fees) or liability for any Claims that arise from or in connection with the Franchise 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 Brand Standard Materials or other requirements and guidelines for the Franchise Business; or for any enforcement action by the U.S. Immigration and Customs Enforcement agency, the U.S. Equal Employment Opportunity Commission, the Occupational Health and Safety Administration, the United States Department of Labor, or any other Governmental Authority whether federal, state, or municipal. 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 Franchise Business, including without limitation, those which relate to Franchisee's non-compliance with or violation of federal or state employment Laws, workplace health and safety Laws, wage



and hour and payment Laws, national or local immigration Laws, or Laws pertaining to Homeland Security.

16. TRADE SECRETS

16.1. 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 16.

16.2. 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 therefrom. Franchisee shall acquire no interest in the Trade Secrets other than the right to use them in developing and conducting the Franchise 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:

- not use the Trade Secrets in any business or other endeavor other than in connection with the Franchise Business;
- maintain absolute confidentiality of the Trade Secrets during and after this Agreement's term;
- make no unauthorized copy of any portion of the Trade Secrets, including, without limitation, the Brand Standards Materials, bulletins, supplements, forms such as customer applications and applications for temporary personnel, confidential correspondence, or other confidential communications, whether written or oral; and
- 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.

17. NON-COMPETITION, NON-SOLICITATION, CONFIDENTIALITY

17.1. 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, 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 Franchisor's 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 search, recruiting and/or placement of permanent or temporary employees, temporary staffing of skilled and/or unskilled personnel (including, without limitation, clerical, computer, technical, accounting, driving/transportation, and medical), employee leasing, or a related enterprise.

17.2. Solicitation of Customers. Franchisee shall not, without the prior written consent of Franchisor, 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 Franchise Business.

- 17.3. Employees’ Covenants Not to Compete, Non-Solicitation, Confidential Information.** 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, not to solicit customers or employees to a competing business, and not to divulge confidential information to a competing business all 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 actual or threatened 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.
- 17.4. Franchisee’s Covenant Not to Compete, Not to Solicit, and Not to Share Confidential Information Following Expiration or Termination.** Upon expiration or termination of this Agreement for any reason, Franchisee, its Principals and, as applicable, its partners, members, and its shareholders (and their respective Family Members) shall not, for a period of two (2) years thereafter, (i) have any interest, directly or indirectly, as an owner, manager, employee, operator, consultant, agent, principal, partner, member, 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 15.1, (ii) directly or indirectly, induce, influence, or encourage any client or customer of the Franchise Business to alter, terminate, or breach its contractual or other business relationship with Franchisor, or the Franchise Business, or



solicit it to do business with any “competing business” as that term is defined in Section 15.1, (iii) directly or indirectly, solicit for employment or otherwise induce, influence, or encourage to terminate employment with the Franchise Business, or employ or engage as an independent contractor, any person who is a then current employee of the Franchise Business or any business that operates as a franchisee of Franchisor, or (iv) not share with any “competing business” as that term is defined in Section 15.1, any confidential information or Trade Secrets of Franchisor, the Franchise Business, or Franchisee.

17.5. Exceptions; Publicly-Traded Stock. The restrictions in this Section 17.4 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 Franchise Businesses pursuant to franchise agreements with Franchisor.

18. IMAGE AND OPERATING STANDARDS

18.1. 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 Franchise Business that are not authorized by Franchisor.

18.2. Brand Standards Materials. Franchisee acknowledges that every detail of the Franchise Business’s operation as it relates to the MRI® brand, the appearance of the business, the quality of the supplies used, and range of services offered is critically important to Franchisor, other MRI® franchisees, and to Franchisee’s clients and customers. Absent written consent, Franchisee shall devote full time to development of the Franchise 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 Materials, or are communicated to Franchisee in writing or by other means, relating, without limitation, to:

- appearance and decor and standards of services and conduct of the Franchise Business;
- supplies and suppliers;
- recommended weekly and daily schedules for providing services to clients;



- image, appearance, and decor of office;
- notices, signs, marketing, and advertising materials;
- type, brand, appearance, cleanliness, sanitation, safety and functioning of the Franchise Business and its fixtures, furnishings, furniture, equipment, décor, and signs, including, but not limited to, computer hardware and software;
- use of standard forms and contracts;
- methods of dealing with customers and potential customers and the labor personnel;
- use of the Marks and use and protection of Trade Secrets;
- preparation and retention of records;
- risk management administration methods for dealing with workers' compensation and unemployment compensation; and
- use of exterior and interior signs, posters, displays and standard formats.

19. COMPLIANCE WITH LAWS

19.1. Compliance. Franchisee shall conduct the Franchise 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 Franchise 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.

- 19.2. Forwarding Notice.** 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 suggesting Franchisee may not be in full compliance with any applicable Law, Franchisee shall deliver to Franchisor a complete copy of such report or notice.
- 19.3. 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 Franchise Business, or after issuance of any order, writ, injunction, award or decree of any court or government agency concerning the Franchisee or the Franchise Business.
- 19.4. 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 Franchise 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.
- 19.5. 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 8, for the complete training of such core staff employees in the operation of the Franchise Business. Franchisee agrees to hire all core staff employees of the Franchise Business and to be exclusively responsible for the terms of their employment, their compensation, and for their complete training in the operation of the Franchise Business.
- 19.6. 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:

- 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 Franchise Business utilizing Franchisor's standard chart of accounts;
- 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 Franchise Business prepared and certified by an independent certified public accountant; and
- 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.

19.7. 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 Contract Staffing 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. TERMINATION

20.1. Termination with Opportunity to Cure. Except as provided in Section 20.2, 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.

20.2. 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:

- Franchisee has not generated sufficient Gross Funds to pay a Gross Continuing Fee of at least three thousand dollars (\$3,000.00) within six (6) months following the Effective Date;
- Franchisee is declared bankrupt or judicially determined to be insolvent, or all or a substantial part of the assets of Franchisee or the Franchise 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;
- Franchisee abandons the Franchise Business by failing to operate for five (5) consecutive days during which Franchisee is required to operate the Franchise 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 Franchise Business;
- Franchisee has made any material misrepresentation relating to acquisition of the Franchise Business or to induce Franchisor to enter into this Agreement;
- Franchisee engages in conduct that, in Franchisor's sole determination, materially and unfavorably reflects upon the operation and reputation of the Franchise Business or the System;
- Franchisee fails for a period of ten (10) days or such longer period as applicable Law may require, after notification of noncompliance, to comply with any federal, state, or local Law or regulation applicable to operation of the Franchise Business;
- after curing any failure described in Section 20.1 Franchisee engages in the same noncompliance, regardless of whether such noncompliance is corrected after notice;
- Franchisee repeatedly fails to comply with one or more requirements of this Agreement regardless of whether corrected after notice;
- the Franchise Business is seized, taken over or foreclosed by a Governmental Authority 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;
- a levy of execution is made upon the Franchise Business or upon any property used in the Franchise Business and is not discharged within five (5) days after such levy;

- Franchisee, or any of its Principals, shareholders, members, officers, directors, or partners is convicted of, or pleads guilty or no contest to, any crime punishable as a felony or involving moral turpitude or immoral conduct;
- Franchisee attempts to transfer the Franchise Business or make an assignment of this Agreement in violation of Section 13 of this Agreement;
- in the event of death or incapacity, the surviving spouse, heirs, beneficiaries, devisees, or legal representatives fail to comply with the provisions of Section 13.7;
- Franchisee discloses, attempts to disclose, or threatens to disclose any of the Trade Secrets in violation of this Agreement;
- 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;
- Franchisee fails to disclose to Franchisor the existence of a non-compete restriction applicable to Franchisee; or
- Franchisee or, if applicable, its Principals, shareholders, members, 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.

20.3. 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.

20.4. Termination by Franchisee. Franchisee understands and acknowledges that Franchisee is obligated by this Agreement to operate the Franchise Business as set forth herein for the duration of the Term, and any attempt by Franchisee to terminate this Agreement prior to the expiration of such 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 20.2.

20.5. Buy-Out Termination. Commencing on January 1 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 17 on the following conditions:

- Franchisee must send Franchisor written notice ("**Notice**") six (6) months prior to the date of the proposed buy-out;
- Franchisee must pay Franchisor a buy-out price equal to fifteen percent (15%) of the Gross Funds of the Franchise Business during the immediately preceding twelve (12) calendar months;
- 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;
- Interest on the Note accrues from the date Franchisor receives the Notice;
- If, after sending such Notice to Franchisor, Franchisee does not consummate the transaction, Franchisor may either: (i) retain fifty percent (50%) of the deposit paid with Franchisee's Notice as liquidated damages, and not as a penalty, and keep this Agreement in force; or (ii) purchase the Franchise Business by paying to Franchisee an amount equal to the then net book value of the tangible assets of the Franchise Business, as disclosed in the balance sheet for the Franchise 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 its salvage value, 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 17 of this Agreement; however, Franchisee will remain responsible for compliance with all of the other post-termination obligations described in Section 17 or otherwise in this Agreement. If Franchisee or any Principal owns or has a controlling interest in one or more additional franchisees of Franchisor, 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 Franchise Businesses in which Franchisee or such principal owner holds equity interest.



21. RIGHTS AND OBLIGATIONS AFTER TERMINATION OR EXPIRATION

21.1. 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 5.2 or Section 5.3.

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

- refrain from directly or indirectly, at any time or in any manner, identifying Franchisee or any business as a current or former MRI® franchisee or business;
- refrain from using any Marks or any colorable imitation of any Marks or other evidence of a Franchise 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;
- 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 Franchise 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;
- 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
- 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.

21.3. 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.

21.4. 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 Franchise 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 Franchise Business and Franchisor shall have the right to open its own business Location and to utilize for Franchisor’s benefit any customer lists generated by the Franchisee. Franchisee further agrees not to contact clients of the Franchise Business for the purpose of offering services of the type provided by the Franchise 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 21.4 shall constitute an unfair method of competition.

22. ENFORCEMENT

22.1. Severability and Substitution.

22.1.1. 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.

22.1.2. To the extent that Section 16, Section 17, or Section 21.2, relating to trademarks, Trade Secrets, non-competition, non-solicitation, or confidentiality 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.

22.1.3. 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.

22.1.4. 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.

22.2. 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.

22.3. 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:

- any custom or practice of the parties that varies from this Agreement's terms;

- 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;
- 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
- acceptance of payments after any breach of this Agreement.

22.4. 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 Funds:

- 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;
- 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;
- Acts of God, acts of the public enemy, acts of terrorism, or societal disruptions caused by terrorism or civil unrest; or
- Acts or omissions of the other party.

22.5. 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.

22.6. 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.

22.7. Choice of Law. 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. Controversies, disputes, and matters in question regarding franchisor’s audit rights under this agreement, the filing of any mandated report, or the payment or fees or other amounts owed to franchisor, or any matter arising out of Section 22.5 shall be filed in the state or federal courts located in Berkeley County, South Carolina. The parties submit to the jurisdiction and exclusive venue of all courts located within South Carolina for all matters arising under this Section. Franchisor and Franchisee irrevocably waive trial by jury in any action, proceeding, or counterclaim brought under this Section. Any and all claims brought under this Section 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.

22.8. Arbitration. Except as provided in Section 22.5 and Section 22.7, all controversies, claims, disputes, and matters arising out of, or relating to, this Agreement or the breach thereof, or the relationship between Franchisee and Franchisor shall be submitted to binding arbitration. Any and all claims brought under this Section 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. Arbitration will take place in Berkeley County, South Carolina, and shall be governed by the laws of the State of South Carolina. All fees associated with the arbitration shall be equally shared by the Franchisor and Franchisee. Parties will be entirely responsible for their own attorney’s fees. Arbitration shall be binding and final and judgment may be entered in accordance with applicable law in any court having jurisdiction over the Parties or the subject matter of the arbitration. Arbitration may not proceed as a class action or any other joint or representative action. No other arbitration action may be consolidated or joined with



the arbitration. 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.

22.9. Mediation. Except as precluded by applicable law, prior to instituting any suit or action in arbitration or 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.

22.10. 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.

22.11. Modification. Except as expressly provided in Section 22.1, the parties may modify this Agreement only by written instrument signed by the parties.

22.12. Construction.

- 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.
- Nothing in this Agreement shall confer any right or remedy upon any third person or legal entity not a party to this Agreement.
- 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.
- Headings in this Agreement are for convenience only. Headings do not define, limit or construe the contents of sections.
- 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.



- 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.
- 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.
- Nothing in this Franchise Agreement or in any related agreement is intended to disclaim Franchisor’s representations made in the Franchise Disclosure Document.

23. 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) Sixty-Six (66) consecutively numbered pages including signature pages; (ii) Schedules 1 and 2, and (ii) Exhibits A – H attached hereto which are **Thirty-Eight (38)** pages in length, respectively.

24. NOTICES AND PAYMENTS. Written notices and reports that this Agreement or the Brand Standards Materials 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 MRI CORPORATION

By: _____
Name:
Title:

FRANCHISEE
[]

By: _____
Name:
Title:



Schedule 1
Location



Schedule 2
Principals



Exhibit A
Franchisee Nondisclosure and Noncompetition Agreement

(See attached)



NONDISCLOSURE AND NONCOMPETITION AGREEMENT (FRANCHISEE)

In consideration of the execution by HQ MRI Corporation of a Franchise Agreement with **[Franchisee]** relating to an MRI franchise, the undersigned, who are the Beneficial Owners and/or Principal Officers and Directors of **[Franchisee]** (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 Section 17 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 OWNERS

SIGNATURES OF PRINCIPAL OFFICERS AND DIRECTORS

By: _____
Name:
Title:

By: _____
Name:
Title:

By: _____
Name:
Title:

By: _____
Name:
Title:

By: _____
Name:
Title:

By: _____
Name:
Title:



Exhibit B
Computer Services Agreement

(See attached)



COMPUTER SERVICES AGREEMENT

THIS AGREEMENT, effective this [date], is entered into by and between HQ MRI 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 DATE.

WITNESSES:

HQ MRI Corporation

By: _____
Its:

CLIENT:

By: _____
Its:



Exhibit C
Franchise Payroll Funding Agreement

(See attached)



FRANCHISE PAYROLL FUNDING AGREEMENT

The following FRANCHISE TEMPORARY AND CONTRACT STAFFING PAYROLL FUNDING AGREEMENT (hereafter, "Agreement"), dated this **[Effective Date]**, is executed between HQ MRI Corporation (together with its affiliates "Hire Quest") and **[Franchisee]** ("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 Contract Staffing 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 , .

HQ MRI CORPORATION:

FRANCHISE OWNER / FRANCHISEE:

By: _____

By: _____

Name:

Name:



Exhibit D
Guaranty Agreement

(See attached)



HQ MRI Corporation

GUARANTY AGREEMENT

IN CONSIDERATION of the acceptance by HQ MRI Corporation, a Delaware corporation having its principal place of business in Goose Creek, South Carolina (hereinafter called “Franchisor”), of an MRI® Franchise Agreement executed by [name] as an officer of [franchise] (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 confidentiality.

WITNESS our hands at _____, on this the _____ day of _____.

Guarantor of Franchisee

By: _____

Name:



Exhibit E
Agreement to Arbitrate Franchisee Disputes

(See attached)



AGREEMENT TO ARBITRATE FRANCHISEE DISPUTES

This Agreement is entered into between HQ MRI Corporation (“MRI”) and the undersigned Franchisee as of the Effective Date of the Franchise Agreement between the parties.

RECITALS

Franchisee is a Franchisee of MRI and signatory to the Franchise Agreement to which this Exhibit E is appended.

Franchisee and the entire MRINetwork benefit if disputes between Franchisees relating to the operations of MRINetwork Franchise Businesses are resolved by arbitration instead of litigation.

AGREEMENTS

The parties agree as follows:

1. Arbitrate. Franchisee will arbitrate all disputes with other MRINetwork Offices arising from or relating to Interoffice Referrals, Remote Recruiters, and other claims relating to the MRINetwork. Franchisee will submit the claim to arbitration in accordance with the then current Arbitration rules provided that all parties have signed the Agreement to Arbitrate.
2. Interoffice Split Business Disputes. If Franchisee becomes involved in a situation in which Franchisee’s office and another MRINetwork Office(s) are each claiming the right to be paid a fee for the placement of the same candidate with the same client company, they must submit the claim to arbitration. Franchisee agrees and acknowledges that it is critical to the MRINetwork that clients are not subjected to multiple claims by MRINetwork Offices for payment for the same candidate.

The arbitrators will determine if one office’s efforts did more to cause the placement. However, the arbitrators may (but need not) apportion the fee between Offices.

If more than one Office is involved in the same dispute relating to a fee, all of the involved Offices that have agreed to arbitration of disputes shall participate in the same arbitration, to avoid inconsistent results.



3. Remote Recruiters. If Franchisee becomes involved in a dispute over the hiring of a remote recruiter by another Franchisee within an exclusive territory, and the territory owner claims that the remote recruiter is violating the MRI Remote Recruiter guidelines, they must submit the claim to arbitration in accordance with the then current Arbitration rules provided that all parties have signed the Agreement to Arbitrate.

The arbitrators will determine if the hiring office complied with the MRINetwork guidelines regarding remote recruiters and will determine what, if any, steps must be taken by the hiring office to correct any improper operations of the remote recruiter activities. The arbitrators' decision will be binding on Franchisee.

4. Failure/Refusal to Arbitrate. If Franchisee fails or refuses to participate in an Arbitration that involves Franchisee's office, the dispute will be submitted to the arbitrators without Franchisee's statement of facts or other input and the arbitrators' decision shall be binding upon Franchisee.
5. Excluded Disputes. This Agreement does not apply to disputes between Franchisee and MRI that are subject to the Dispute Resolution procedures described in the Franchise Agreement between Franchisee and MRI or to disputes among the owners of a single franchise or to disputes between offices relating to the hiring of current or former employees.
6. An award rendered by a majority of the arbitrators shall be final and judgment may be entered upon it in any court having competent jurisdiction.
7. Franchisee shall not bring any litigation, arbitration, administrative action or any other action of any nature against any arbitrator arising from or relating to any arbitration decision involving Franchisee's Office.

This Agreement shall continue in effect until the parties mutually agree in writing to modify or terminate it.



HQ MRI CORPORATION

FRANCHISEE1

By: _____

Franchisee1, Individually

Date: _____

Date: _____



Exhibit F
Collateral Assignment of Lease

(See attached)



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 MRI CORPORATION**, a Florida Limited Liability Company, with its business address located at 111 SPRINGHALL DRIVE, GOOSE CREEK, SC 29445 (“Franchisor”), and whose current principal place of business is [address] (“Franchisees”). 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 [date] (“Franchise Agreement”), pursuant to which Franchisee shall own and operate a **MRI** Franchise Business (“Franchise Business”) located at (“Offices”); and

WHEREAS, Franchisee has leased or shall lease certain premises containing the Office from _____ (“Lessor”) pursuant to that certain Lease Agreement dated _____, 20____, 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 Franchise 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 Franchise 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 Franchise 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 MRI Corporation

By: _____
Name:
Title:

FRANCHISEE:

By: _____
Name:
Title:

Exhibit G
Collateral Assignment of Telephone Numbers and Listings

(See attached)



COLLATERAL ASSIGNMENT OF TELEPHONE NUMBERS AND LISTINGS

THIS COLLATERAL ASSIGNMENT OF TELEPHONE NUMBERS AND LISTINGS (“Assignment”) is made and entered by and between **HQ MRI CORPORATION**, a Delaware corporation (“**Franchisor**”), and [], a [] (“**Franchisee**”) contemporaneously with that certain Franchise Agreement entered into by the Parties. 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 (“Franchise Agreement”), pursuant to which Franchisee shall own and operate a **MRI** Franchise Business (“Franchise Business”); and

WHEREAS, the Franchise Business uses certain proprietary knowledge, procedures, formats, systems, forms, printed materials, applications, methods, specifications, standards and techniques authorized or developed by Franchisor (collectively, the “Operating MRI System”); and

WHEREAS, Franchisor identifies Franchised Businesses and various components of the Operating 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 Operating System and the Marks, Franchisor desires to have the right to control the telephone numbers and listings of the Franchised 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 Franchise 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 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.

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 MRI Corporation

By: _____
Name:
Title:

FRANCHISEE:

By: _____
Name:
Title:

Exhibit H
Back Office Services Agreement

(See attached)

BACK OFFICE SERVICES AGREEMENT

This Back Office Services Agreement (this “**Agreement**”), is entered into by and between HQ MRI Corporation, a Delaware corporation (“**Franchisor**”), and [], a [] (“**Franchisee**”) contemporaneously with that certain Franchise Agreement entered into by the Parties. Franchisor and Franchisee are sometimes referred to collectively as the “parties” or individually as a “party”.

1. Services. Franchisor shall provide to Franchisee the following services (collectively, the “**Services**”) in accordance with the terms and subject to the conditions of this Agreement:

- updates to and maintenance of Franchisor’s billing and payroll system;
- invoicing customers for Recruiter Services and Contract Staffing Services;
- accounts receivable and cash receipts application services;
- basic accounting assistance including preparation of monthly profit and loss statements and balance sheets for the Franchise Business;
- collections assistance including calls and demand letters, *provided, however*, that Franchisee shall bear ultimate responsibility for collections;
- accounts payable assistance including payment of regular monthly, quarterly, and annual vendor invoices (which amounts Franchisee will advance to Franchisor) on behalf of Franchisee; and
- optional liaison services between Franchisee and any professional employment organization or similar organization Franchisee selects to assist with benefits and payroll administration of internal staff.

2. Fees and Expenses. For the Services to be performed hereunder, Franchisee shall pay to Franchisor the fixed Back Office Services Fee as defined in Franchisor the Franchise Agreement (the “**Fee**”) to be subtracted directly from Franchisee’s Share and reflected on Franchisee’s Settlement Statement.

3. Term. This Agreement shall commence as of the Effective Date of the Franchise Agreement and shall continue thereafter during the Term of the Franchise Agreement (the “**Term**”). This Agreement shall terminate immediately upon termination of the Franchise Agreement.

4. Independent Contractor. The details of the method and manner for performance of the Services by Franchisor shall be under its own control, Franchisee being interested only in the results thereof. Franchisor shall be solely responsible for supervising, controlling, and directing the details and manner of the completion of the Services. Nothing in this Agreement shall give Franchisee the right to instruct, supervise, control, or direct the details and manner of the

completion of the Services. Franchisor is for all purposes hereunder an independent contractor and in no event will Franchisor be considered an agent or employee of Franchisee or any of its subsidiaries or affiliates for any purpose.

5. Limited Warranty. Franchisor warrants that it shall perform the Services in a timely, workmanlike, and professional manner in accordance with generally recognized industry standards for similar services. FRANCHISOR (a) MAKES NO WARRANTIES EXCEPT FOR THAT SET OUT ABOVE; AND (b) DISCLAIMS ALL OTHER WARRANTIES, WHETHER EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO ACCURACY OF RESULTS AND IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. Franchisor's sole and exclusive liability and Franchisee's sole and exclusive remedy for breach of the limited warranty set out in this Section shall be reperformance of the affected services. If Franchisor cannot reperform the services in compliance with the warranty set forth above within a reasonable time (but no more than 30 days) after Franchisee's written notice of such breach, Franchisee may, at its option, terminate the Agreement by serving written notice of termination pursuant to this Section.

6. Limitation of Liability. IN NO EVENT SHALL FRANCHISOR BE LIABLE TO FRANCHISEE OR TO ANY THIRD PARTY FOR ANY LOSS OF USE, REVENUE, OR PROFIT, OR LOSS OF DATA OR DIMINUTION IN VALUE, OR FOR ANY CONSEQUENTIAL, INCIDENTAL, INDIRECT, EXEMPLARY, SPECIAL, OR PUNITIVE DAMAGES WHETHER ARISING OUT OF BREACH OF CONTRACT, TORT (INCLUDING NEGLIGENCE), OR OTHERWISE, REGARDLESS OF WHETHER SUCH DAMAGE WAS FORESEEABLE AND WHETHER OR NOT FRANCHISOR HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, AND NOTWITHSTANDING THE FAILURE OF ANY AGREED OR OTHER REMEDY OF ITS ESSENTIAL PURPOSE. IN NO EVENT SHALL FRANCHISOR'S AGGREGATE LIABILITY ARISING OUT OF OR RELATED TO THIS AGREEMENT, WHETHER ARISING OUT OF OR RELATED TO BREACH OF CONTRACT, TORT (INCLUDING NEGLIGENCE), OR OTHERWISE, EXCEED THE AGGREGATE BACK OFFICE SERVICES FEES (AS DEFINED IN THE FRANCHISE AGREEMENT) PAID OR PAYABLE TO FRANCHISOR PURSUANT TO THIS AGREEMENT IN THE SIX MONTH PERIOD PRECEDING THE EVENT GIVING RISE TO THE CLAIM.

7. General. Each of the parties hereto shall use commercially reasonable efforts to, from time to time at the request of the other party, furnish the other party such further information or assurances, execute and deliver such additional documents, instruments, and conveyances, and take such other actions and do such other things, as may be reasonably necessary or appropriate to carry out the provisions of this Agreement and give effect to the transactions contemplated hereby. Each party shall deliver all communications in writing either in person, by certified or registered mail, return receipt requested and postage prepaid, by email, or by recognized overnight courier service, and addressed to the other party at the addresses set forth above (or to such other address that the receiving party may designate from time to time in accordance with this Section). This Agreement and all matters arising out of or relating to this Agreement, including tort and statutory claims are governed by, and construed in accordance

with, the laws of South Carolina, without giving effect to any conflict of laws provisions thereof that would result in the application of the laws of a different jurisdiction. This Agreement is subject to, and all matters arising out of or relating to this Agreement shall be resolved in accordance with the dispute resolution sections of the Franchise Agreement (Sections [], [], and [], thereof) This Agreement contains the entire understanding of the parties with respect to the subject matter hereof, and supersedes all prior and contemporaneous written or oral understandings, agreements, representations, and warranties with respect to such subject matter. The invalidity, illegality, or unenforceability of any provision herein does not affect any other provision herein or the validity, legality, or enforceability of such provision in any other jurisdiction. The parties may not amend this Agreement except by written instrument signed by the parties. No waiver of any right, remedy, power, or privilege under this Agreement ("**Right(s)**") is effective unless contained in a writing signed by the party charged with such waiver. No failure to exercise, or delay in exercising, any Right operates as a waiver thereof. No single or partial exercise of any Right precludes any other or further exercise thereof or the exercise of any other Right. The Rights under this Agreement are cumulative and are in addition to any other rights and remedies available at law or in equity or otherwise; provided that, the parties intend that the remedy set out in Section 5 (Limited Warranty) is Franchisee's exclusive remedy for the Franchisor's breach of the limited warranty set out in Section 5 and the Limitation of Liability set forth in Section 6 shall limit the remedies available to Franchisee as set forth in Section 6. Franchisee may not directly or indirectly assign, transfer, or delegate any of or all of its rights or obligations under this Agreement, voluntarily or involuntarily, including by change of control, merger (whether or not such party is the surviving entity), operation of law, or any other manner, without the prior written consent of Franchisor. Franchisor may assign this Agreement to an affiliate. Any purported assignment or delegation in violation of this Section shall be null and void. Franchisor may also subcontract the Services. This Agreement is binding upon and inures to the benefit of the parties and their respective successors and permitted assigns. Except for the parties, their successors and permitted assigns, there are no third party beneficiaries under this Agreement. Sections 5, 6, and 7 of this Agreement, as well as any other provision that, in order to give proper effect to its intent, should survive the expiration or termination of this Agreement, will survive such expiration or termination for the period specified therein, or if nothing is specified for a period of 12 months after such expiration or termination. This Agreement may be executed in counterparts.

8. Force Majeure. No party shall be liable or responsible to the other party, or be deemed to have defaulted under or breached this Agreement, for any failure or delay in fulfilling or performing any term of this Agreement (except for any obligations of Franchisee to make payments to Franchisor hereunder), when and to the extent such failure or delay is caused by or results from acts beyond the impacted party's ("Impacted Party") [reasonable] control, including, without limitation, the following force majeure events ("Force Majeure Event(s)": (a) acts of God; (b) flood, fire, earthquake, [OTHER POTENTIAL DISASTER(S) OR CATASTROPHE(S), SUCH AS EPIDEMICS,] or explosion; (c) war, invasion, hostilities (whether war is declared or not), terrorist



threats or acts, riot or other civil unrest; (d) government order, law, or actions; (e) embargoes or blockades in effect on or after the date of this Agreement; [and] (f) national or regional emergency; [and] [(g) strikes, labor stoppages or slowdowns, or other industrial disturbances;] [and] [(h) telecommunication breakdowns, power outages or shortages, lack of warehouse or storage space, inadequate transportation services, or inability or delay in obtaining supplies of adequate or suitable materials;] [and] [(i) other [similar] events beyond the [reasonable] control of the Impacted Party]. The Impacted Party shall give notice within [NUMBER] days of the Force Majeure Event to the other party, stating the period of time the occurrence is expected to continue. The Impacted Party shall use diligent efforts to end the failure or delay and ensure the effects of such Force Majeure Event are minimized. The Impacted Party shall resume the performance of its obligations as soon as reasonably practicable after the removal of the cause. In the event that the Impacted Party's failure or delay remains uncured for a period of [NUMBER] [consecutive] days following written notice given by it under this Section 12, [either party/the other party] may thereafter terminate this Agreement upon [NUMBER] days' written notice.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the Effective Date by their respective officers thereunto duly authorized.

FRANCHISOR:
HQ MRI CORPORATION

By _____
 Name:
 Title:

FRANCHISEE:
 []

By _____
 Name:
 Title:



threats or acts, riot or other civil unrest; (d) government order, law, or actions; (e) embargoes or blockades in effect on or after the date of this Agreement; [and] (f) national or regional emergency; [and] [(g) strikes, labor stoppages or slowdowns, or other industrial disturbances;] [and] [(h) telecommunication breakdowns, power outages or shortages, lack of warehouse or storage space, inadequate transportation services, or inability or delay in obtaining supplies of adequate or suitable materials;] [and] [(i) other [similar] events beyond the [reasonable] control of the Impacted Party]. The Impacted Party shall give notice within [NUMBER] days of the Force Majeure Event to the other party, stating the period of time the occurrence is expected to continue. The Impacted Party shall use diligent efforts to end the failure or delay and ensure the effects of such Force Majeure Event are minimized. The Impacted Party shall resume the performance of its obligations as soon as reasonably practicable after the removal of the cause. In the event that the Impacted Party's failure or delay remains uncured for a period of [NUMBER] [consecutive] days following written notice given by it under this Section 12, [either party/the other party] may thereafter terminate this Agreement upon [NUMBER] days' written notice.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the Effective Date by their respective officers thereunto duly authorized.

FRANCHISOR:
HQ MRI CORPORATION

By _____
 Name:
 Title:

FRANCHISEE:
 []

By _____
 Name:
 Title:



Exhibit B

Brand Standards Materials Table of Contents

(see attached)

EXHIBIT C TO THE FRANCHISE DISCLOSURE DOCUMENT

OPERATIONS MANUAL TABLE OF CONTENTS

Folder	Sub Folders	Document Count	Total Pages
Running My Business			
Finance	Budget; Financial Plan	2	81
Legal	Charter, Employment Agreements, Fee Legal Articles & Memos; Manuals; Office Policies	81	351
People	Hiring, HR Policies, Training	21	300
Business Planning	Templates, Compensation Samples, Succession Planning	11	155
Business Expansion & Development	Internal Processes, Split Business, Sales Support Materials & Services/Solutions	44	151
Community	CPP, Charitable Giving, Next Gen; Legacy; O2O; Rep Council	49	67
Learning & Talent Development	Start Up; Client Tools; Scripts; Talent Tools	22	225
Technology	Solutions, Applications – Jostle; Snaphop; PCRecruiter; PTWeb+	49	115
Rankings & Awards	Awards	1	32
Branding, Marketing & Social Media	Monthly Materials; Templates; Articles, Assets; Tools; Imagery; Cards	86	351

Folder	Sub Folders	Document Count	Total Pages
Contract Staffing	Benefits; Travel; Experience; Contracts; Contractors; Screening; International; Marketing; Owner	51	135

	Resources; People 2.0; Pricing; Scripts; Overview		
Vendor Services	Vendor Listings; Program Overview; Business Services; Tech Resources; Candidate Resources	139	382



Exhibit C1

MRI Outlets as of December 31, 2023

(see attached)

EXHIBIT C-1 LIST OF ACTIVE FRANCHISEES

Company	Address	City	State	Zip Code	Phone
Management Recruiters of Auburn-Opelika, LLC	500 S. 7th St. #2191	Opelika	AL	36803	(334) 749-4941
Management Recruiters of Rogers	5306 VILLAGE PARKWAY	ROGERS	AR	72758	(479) 268-4091
Govig & Associates	7150 E CAMELBACK ROAD	SCOTTSDALE	AZ	85251	(480) 941-5627
Management Recruiters of Templeton	7350 EL CAMINO REAL	ATASCADERO	CA	93422	(805) 460-0800
Management Recruiters of Chico	2060 TALBERT DRIVE	CHICO	CA	95928	(530) 892-9898
Healthcare IS	130 West A Street	Dixon	CA	95620	(707) 410-8829
Reid & Associates	12812 Valley View Street	Garden Grove	CA	92845	(562) 432-5905
MRINetwork Sacramento*	5925 Granite Lake Drive	Granite Bay	CA	95746	(916) 850-2430
ETA Staffing	23200 S Western Ave #310	Harbor City	CA	90710	(253) 441-0432
Management Recruiters of Crown Valley	28052 Camino Capistrano	Laguna Niguel	CA	92677-1107	(949) 429-8813
Management Recruiters of San Francisco Bay	3049 Independence Drive	Livermore	CA	94551	(650) 548-4800
Search Consultants International	11811 Bellagio Road	Los Angeles	CA	90049	(410) 727-5750
Sales Consultants of Newport Beach	3 Amador	Newport Coast	CA	92657	(949) 622-0232
Sales Consultants of Palo Alto	3000 El Camino Real	Palo Alto	CA	94306	(650) 530-9011
Peak Demand	140 Diamond Creek Pl	Roseville	CA	95747	(916) 565-2700
Management Recruiters of San Clemente	501 N El Camino Real	San Clemente	CA	92672	(949) 366-4140
Sales Consultants of San Francisco Bay	3 Waters Park Drive	SAN MATEO	CA	94403	(650) 548-4800
The HealthCare Initiative	9250 E. Costilla Ave. Suite 655	Centennial	CO	80112	(303) 799-8188
Management Recruiters of Colorado Springs	4935 North 30th Street	COLORADO SPRINGS	CO	80919	(719) 575-0500
Management Recruiters of Evergreen	1508 Alpenglow Road, Suite 100	EVERGREEN	CO	80439	(800) 933-5250
Pivotal Partners Group	101 Merritt 7 Corporate Park	Norwalk	CT	06851	(203) 652-8283
AHA! Talent Experts	17637 Ashbourne Lane	Boca Raton	FL	33496	(678)570-7753
Management Recruiters of Bonita Springs	9240 Bonita Beach Road, Suite 3307	Bonita Springs	FL	34135	(239) 495-7885

EXHIBIT C-1 LIST OF ACTIVE FRANCHISEES

The Dentz Group	1201 6TH AVE. WEST, STE. 321	BRADENTON	FL	34205	(941) 744-0944
Executive Staffing	2525 Ponce de Leon Blvd.	Coral Gables	FL	33134	(786) 441-5272
H&CO Staffing Advisors, LLC	2320 Ponce de Leon Blvd	Coral Gables	FL	33134	(305) 444-8800
Protis Global	190 Congress Park Drive	Delray Beach	FL	33445	(305) 424-8510
Ace Talent Curators, LLC	190 Congress Park Drive	Delray Beach	FL	33445	(305) 602-9910
The Persel Group	1605 Northeast 16 th Ave.	Fort Lauderdale	FL	33305	(202)669-2390
MRC Staffing Solutions	1689 Tarpin Bay Dr South	Naples	FL	34119	(937) 438-0042
Management Recruiters of Milwaukee-West	15902 33rd CT E	Parrish	FL	34219	(262) 797-7500
Allied Search Partners*	3930 S. Nova Rd.	Port Orange	FL	32127	(407) 697-1175
The Beneva Group	1990 Main Street	Sarasota	FL	34236	(941) 953-3500
The Mattran Group	1549 Ringling Blvd	Sarasota	FL	34236	(941) 365-5151
CA Partners	624 Quintana Place NE	St. Petersburg	FL	33703	(727) 828-9021
Search Max, Inc.*	1401 NW 136th Ave	Sunrise	FL	33323	(954) 382-8856
Management Recruiters of Tallahassee	2333 Hansen Lane, Suite 2	Tallahassee	FL	32301	(850) 656-8444
Sales Consultants of Jacksonville	16592 SE 77th Northridge Court	The Villages	FL	32162	(954) 849-5892
The Kenzak Group	700 S. Rosemary Avenue	West Palm Beach	FL	33401	(561) 512-6363
JNX Partners	1777 Boulder Walk Ln SE	Atlanta	GA	30316	(770) 982-0043
Delaney Search Group	6675 Peachtree Industrial Blvd.	Atlanta	GA	30360	(706) 389-5690
Lynch Staffing, LLC	4899 Wewatta St. SW	Atlanta	GA	30331	(404)729-1852
Strategic Talent Partners, LLC	5102 Greenard Watson Lane	Buford	GA	30518	(404)973-7107
Management Recruiters of Cartersville	767 West Ave	CARTERSVILLE	GA	30120	(770) 607-6630
Quest Talent Solutions	4625 Wood Cove Trail	Cumming	GA	30041	(678) 782-2573
The Dunwoody Group	1711 Brandywine Court	Dunwoody	GA	30338	(770) 455-1958
Management Recruiters of Hall County	5272 BOWMAN SPRINGS	FLOWERY BRANCH	GA	30542	(770) 965-6750
Polikov Recruitment Solutions*	555 Sun Valley Drive	Roswell	GA	30076	(770) 642-1230
Harrison Group, Inc.	305 2nd Street SE	CEDAR RAPIDS	IA	52401	(319) 366-8441

EXHIBIT C-1 LIST OF ACTIVE FRANCHISEES

Brown Davis Executive Search Partners*	305 2nd Street SE	Cedar Rapids	IA	52401	(319) 286-4734
Sales Consultants of Riverside	300 WEST BROADWAY	COUNCIL BLUFFS	IA	51503	(712) 325-6884
JW Industrial Partners	1902 Hwy 71 N, Suite 101	Okoboji	IA	51355	(712) 332-2011
Management Recruiters of Iowa City	PO Box 5, 600 Court Street	Williamsburg	IA	52361	(319) 499-5200
Visionary Executive Search	2551 W. Breneman St.	Boise	ID	83702	(208) 425-6555
Sales Consultants of Bloomington	513 E. Locust St.	BLOOMINGTON	IL	61701	(309) 829-6000
Management Recruiters of Mattoon	1421 Wabash Avenue	MATTOON	IL	61938	(217) 235-9393
Miller Resource Group	47 E Chicago Ave	Naperville	IL	60540	(630) 990-8233
MRA Global Sourcing*	1827 Walden Office Square	Schaumburg	IL	60173	(847) 278-2120
Iris Recruiting Solutions	11611 NORTH MERIDIAN STREET	CARMEL	IN	46032	(317) 582-0202
Shurig Solutions, Inc.	6814 S. County Road 100 W.	Clayton	IN	46118	(317) 983-4473
Tellis Executive Search	6369 Kelsey Drive	Indianapolis	IN	46268	(317) 983-5339
Protis Global*	101 W. Ohio Street	Indianapolis	IN	46204	(305) 424-8510
Clearfield Talent, LLC	3155 Brookfield Drive	Newburgh	IN	47630	(812) 803-2662
Manta Resources, Inc.	15229 HERRIMAN BLVD.	NOBLESVILLE	IN	46060	(317) 773-4323
Management Recruiters of Zionsville (Indianapolis)	1531 WEST OAK STREET	ZIONSVILLE	IN	46077	(317) 733-9644
Balanced Workforce Group	1077 Brayden Court	Hebron	KY	41048	(859) 287-3408
Sales Consultants of Alexandria	618B Murray Street	Alexandria	LA	71301	(318) 561-2882
Omega Point Partners	18827 Bienville Ct.	Prairieville	LA	70769	(724) 741-6060
MAGEE RESOURCE GROUP	620 Texas Street	SHREVEPORT	LA	71101	(318) 865-8411
Boston Group Executive Offices	200 Berkeley Street	BOSTON	MA	02116	(617) 262-5050
Management Recruiters of Westborough	1700 WEST PARK DRIVE	WESTBOROUGH	MA	01581	(508) 366-9900
LifeWork Search	519 American Legion Hwy., Suite 12	Westport	MA	02790	(508) 636-8418
The Plastic Job Source	8850 Columbia 100 Pkwy	COLUMBIA	MD	21045	(410) 740-5501
The Meyers Group	11700 Old Georgetown Rd	N. Bethesda	MD	20852	(301) 625-5600
MRIGlobalSearch	9515 Deereco Road	Timonium	MD	21093	(410) 252-6616
Vector Search Group	PO Box 2542	Kennebunkport	ME	04046	(207) 226-0942

EXHIBIT C-1 LIST OF ACTIVE FRANCHISEES

Sales Consultants of Auburn Hills	2180 Lake Angelus Shrs	Auburn Hills	MI	48326	(248) 373-7177
Management Recruiters of Detroit/Farmington Hills	32455 West 12 Mile Road #3506	Farmington Hills	MI	48333	(248) 324-2100
Variant Partners	30600 Telegraph Rd	Franklin	MI	48025	(734) 769-1720
Management Recruiters of Ottawa County	233 Washington Avenue Ste 100C	Grand Haven	MI	49417	(616) 844-0073
The Judson Group*	3100 Hathaway Drive SE	Grand Rapids	MI	49506	(616) 336-8484
SCN	41875 WEST ELEVEN MILE ROAD	NOVI	MI	48375	(248) 305-9727
Angott Search Group	101 South Main Street	Rochester	MI	48307	(248) 650-4800
Management Recruiters of Traverse City	104 South Union St	Traverse City	MI	49684	(231) 947-8000
PointsNorth Search Group	13335 East Shore Road	Crosslake	MN	56442	(763) 244-1454
Cyber Security Recruiters	637 Main St NW	Elk River	MN	55330	(763) 515-0088
Winona Search Group*	111 Riverfront, Ste. 205	WINONA	MN	55987	(507) 474-4820
Westport One Worldwide, LLC	1170 Borman Drive	Saint Louis	MO	63146	(314) 991-4355
Goede Premier Recruitment	11188 Tesson Ferry Road	St. Louis	MO	63123	(314) 843-2727
The Neeljym Search Group	11701 Borman Drive	St. Louis	MO	63146	(314) 991-4355
KR Hugill Associates	7045 Shiny Penny Way	Billings	MT	59106	(720) 924-8203
Top Dog Engineers, LLC	105 Camden Place	Madison	MS	39110	(270)890-3885
The Chatham Group	50101 Governors Drive	Chapel Hill	NC	27517	(919) 957-2270
Stay Gold Solutions	7400 Carmel Executive Park Dr	Charlotte	NC	28266	(704) 594-2386
Management Recruiters of Davidson	710 Northeast Drive	Davidson	NC	28036	(704) 896-8890
The Photonics Group	6015 Fayetteville Road	DURHAM	NC	27713	(919) 572-2292
The Photonics Group	6015 Fayetteville Road	Durham	NC	27713	(919) 572-2292
The Hickory Group	835 HIGHLAND AVENUE S.E.	HICKORY	NC	28602	(828) 324-2020
Management Recruiters of Raleigh	5171 GLENWOOD AVENUE	RALEIGH	NC	27612	(919) 781-0400
Southport Search and Staffing, LLC	3852 Members Club Blvd. SE	Southport	NC	28461	(954) 385-3122
Management Recruiters of Bethlehem	174 Bolick Lane	Taylorsville	NC	28681	(828) 495-8233
Gibson Consultants of Wilmington, Inc.	1121 Military Cutoff Rd, C-378	Wilmington	NC	28405	(203) 948-2880

EXHIBIT C-1 LIST OF ACTIVE FRANCHISEES

The Siena Group, Inc.	201 E. Main Street, Suite B	Youngsville	NC	27596	(919) 813-0778
JJM Search	980 County Road W	Fremont	NE	68025	(402) 721-6590
Management Recruiters of Bedford	2 Bedford Farms Drive	BEDFORD	NH	03110	(603) 669-9800
Affinity North*	1442 Broad Street	Bloomfield	NJ	07003	(973) 866-5800
LS Alliance	800 Riverview Drive, Suite 109	Brielle	NJ	08730	(855) 572-4473
Management Recruiters of Edison	6 Gooding Court	Edison	NJ	08820	(732) 767-1025
Office Mates 5 Englewood Cliffs	560 SYLVAN AVENUE	ENGLEWOOD CLIFFS	NJ	07632	(201) 871-2203
Stascom Technologies	21 Bowling Green Pkwy	Lake Hopatcong	NJ	07849	(973) 729-5220
Core Resource Group	1124 Springfield Avenue	Mountainside	NJ	07092	(908) 789-9400
Starboard Consultants	364 Parsippany Road	Parsippany	NJ	07054	(973) 887-3838
The Bluestone Group	1130 Rt 202 South Bldg. D7	Raritan	NJ	08869	(908) 541-9600
Consiglio-Mattei Executive Search Group LLC	8500 Menaul Blvd.	Albuquerque	NM	87112	(505) 263-6477
Management Recruiters of St. Lawrence County	23 East Main Street	Gouverneur	NY	13642	(315) 393-9460
Elite Search Professionals	8258 Main Street	Hunter	NY	12442	(646) 838-4889
MedLeaders Group	534 Broad Hollow Road	Melville	NY	11747	(516) 882-5446
The Park West Group	711 Amsterdam Avenue	New York	NY	10025	(646) 930-2016
THE OTTOHAHN GROUP	1140 Crosspointe Lane, Suite 8	Webster	NY	14580	(585) 302-4703
Ninan Executive Search	398 Mamaroneck Avenue	White Plains	NY	10605	(914)844-5544
Acuity Search Solutions, Inc.	9916 Carver Road, Suite 104	Blue Ash	OH	45242	(513) 206-9873
Management Recruiters of University Circle	12107 Mayfield Road	Cleveland	OH	44106	(216) 561-6776
Management Recruiters of Dayton	10 North Ludlow	DAYTON	OH	45402	(937) 228-8271
Management Recruiters of Akron	3490 Ridgewood Road	Fairlawn	OH	44333	(330) 867-2900
Connor Caitlin Talent Solutions	44 Public Square	Medina	OH	44256	(614) 493-7031
Management Recruiters of Cleveland-Independence*	6785 Wallings Rd.	North Royalton	OH	44133	(440) 582-2421
Management Recruiters of Lake County	4082 Erie Street	Willoughby	OH	44094	(440) 946-2355
Earth Resource Network, LLC	501 E. 15th Street	EDMOND	OK	73013	(405) 715-1117
The Lakewood Group	750 NW Charbonneau	Bend	OR	97703	(253) 582-8488

EXHIBIT C-1 LIST OF ACTIVE FRANCHISEES

GEM Global Search and Consulting Group, LLC	1900 Main Street	Canonsburg	PA	15317	(412) 515-0587
Highland Consulting Group, Inc.	2000 Tower Way	Greensburg	PA	15601	(724) 837-6335
Management Recruiters of Lancaster	2233 Dutch Gold Dr	Lancaster	PA	17601-1941	(717) 299-6222
The Bishop Group	3553 W. Chester Pike #314	Newtown Square	PA	19073	(610) 353-2705
Management Recruiters of Quakertown	1408 Fels Road	Quakertown	PA	18951	(267) 373-9455
Management Recruiters of Providence	101 DYER STREET	PROVIDENCE	RI	02903	(401) 274-2810
E3NJ Executive Search, LLC	308 Verdana Court	Boiling Springs	SC	29316	(864) 501-2202
Management Recruiters of Lowcountry	1333 Pinnacle Lane	Charleston	SC	29412	(843) 628-5021
The Q Works Group	1057 RED VENTURES DR	FORT MILL	SC	29707	(803) 548-8140
Management Recruiters of Greenville	150 EXECUTIVE CENTER DRIVE	GREENVILLE	SC	29615	(864) 370-2600
The Newell Group*	2082 Woodruff Road	Greenville	SC	29607	(864) 288-0011
Management Recruiters of Chattanooga-Brainerd	6005 CENTURY OAKS DRIVE	CHATTANOOGA	TN	37416	(423) 894-5500
Sales Consultants of Chattanooga-Brainerd	6005 CENTURY OAKS DRIVE	CHATTANOOGA	TN	37416	(423) 894-5500
The North Lake Group	3934 Hilltop Drive	Cookeville	TN	38506	(931) 341-9145
The Trevi Group	1113 Murfreesboro Rd.	Franklin	TN	37064	(615) 815-1961
Management Recruiters of Chattanooga-North	4808 HIXSON PIKE	HIXSON	TN	37343	(423) 877-4040
Fidelity Employment Staffing; Development and Retention, Inc.	6263 Poplar Ave.	Memphis	TN	38119	(901) 310-4570
Management Recruiters of Nashville	7209 Haley Industrial Blvd.	Nolensville, TN	TN	3715	(615) 333-6067
Siter-Neubauer & Associates	1250 E. Copeland Road, Suite 740	Arlington	TX	76011	(817) 989-9700
6Sigmastaff	1327 Anna Ct.	Cedar Park	TX	78613	(817)875-2253
3D Executive Search Partners	17624 Windflower Way	Dallas	TX	75252	(972) 402-5701
Zenith Search Partners	310 Morningside Drive	Friendswood	TX	77549	(281) 482-6575
The Fassino Group	10480 Grant Road	Houston	TX	77070	(281) 571-3797
Saple, Inc.	6919 Russet Oak Lane	Katy	TX	77493	(408)816-4373
CP & Krell Group	809 Brookstone Ct	Keller	TX	76248	(817) 484-0187
The Jacob Group	6190 Virginia Parkway	McKinney	TX	75071	(214) 544-9030

EXHIBIT C-1 LIST OF ACTIVE FRANCHISEES

Sales Consultants of San Antonio	8626 Tesoro Dr.	SAN ANTONIO	TX	78217	(210) 805-0900
High Quality Leadership Executive Search	246 Early Trail	San Antonio	TX	78228	(210) 732-6400
The SearchWorks Group	300 State St #93293	Southlake	TX	76092	(940) 580-2677
Odin Search Group	2859 Earl Drive	Trophy Club	TX	76262	(817) 348-8900
Management Recruiters of Highland Village	4022 New Copeland Road	Tyler	TX	75701	(214) 945-2845
Julison Sell Search Team	2715 Meridian St #201	Bellingham	WA	98225-2410	(360) 684-1578
Management Recruiters of Kirkland	218 Main Street #913	Kirkland	WA	98033	(425) 778-1212
Domer Recruiting Group, Inc.	5920 Hwy 291 Suite I	Nine Mile Falls	WA	99026	(425) 336-2447
Management Recruiters of Mercer Island	4580 Klahanie Drive SE	Sammamish	WA	98029	(206) 232-0204
Management Recruiters of Spokane	1131 E Westview Ct	Spokane	WA	99218	(509) 324-3333
Sales Consultants of Brookfield	16800 W Greenfield Ave	BROOKFIELD	WI	53005	(262) 754-0600
MR Dominion*	13300 Wrayburn Road	Elm Grove	WI	53122	(262) 754-3202
The Dentz Group	285 Forest Grove Drive	Pewaukee	WI	53072	(941) 744-0944
PointOne Recruiting Solutions*	8411 Corporate Drive	Racine	WI	53406	(262) 886-8000
The Brooke Group	1041 Imperial Drive,	Morgantown	WV	26508	(304) 594-1890

Franchisees with an (*) operate under an Established Firm Franchise Agreement previously offered by MRI.



Exhibit C2

Former MRI Outlets for the period January 1, 2023 through December 31, 2023

(see attached)

EXHIBIT C-2

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 2023, or who has not communicated with the franchisor within 10 weeks of the date of this franchise disclosure document.

If you buy this franchise, your contact information may be disclosed to other buyers when you leave the franchise system.

Franchisee	Address	City	State	ZIP	Phone	Reason
Joe Rademacher	PO Box 70088	Oro Valley	AZ	85737	520-229-8882	Nonrenewal
Ron Whitney			CA			Transfer
Dave Dart	950 Encore Way	Naples	FL	34110	239-596-7280	Nonrenewal
Anthony Bileddo	8008 Links Way	Port St. Lucie	FL	34986	815-524-2345	Nonrenewal (Still operates independently)
Tim Tuttle	1703 Country Trails Drive	Safety Harbor	FL	34695	727-791-3277	Nonrenewal (Retired)
Larry and Nancy Scofield	3401 Bayshore Blvd.	Tampa	FL	33629	813-228-0258	Nonrenewal
Stacy Stevens	254 Sylvan Blvd.	Winter Park	FL	32789	407-629-2424	Nonrenewal
Tilden Martin	4973 Leifs Landing	Marietta	GA	30068	770-645-6009	Nonrenewal (Retired)
Cliff Rusnak	1038 North Ashland Ave.	Chicago	IL	60622	312-226-4916	Nonrenewal
Clint Kenner	9704 Falcon Drive	Richmond	IL	60071	815-322-9150	Nonrenewal
Daniel Lassee	310 S 1 st St.	St. Charles	IL	60174	630-443-5200	Ceased Operations (Retirement, joined network in 1987)
Bert Miller (Still owns primary location)	540 North St., Suite 4108	Chicago	IL	606545	305-424-8510	Ceased Operations (Secondary location, still operates primary location)
Rob Edwards	149 Whatley Road	Conway	MA	01341	413-824-6447	Nonrenewal

EXHIBIT C-2

Bruce Flory	6586 Torybrooke Circle	West Bloomfield	MI	48323	513-282- 0900	Nonrenewal
Mary Deal	3816 South New Hope Road, Suite 8	Gastonia	NC	28056	704-215- 5968	Ceased Operations (health)
Peter Kazella	1013 Chesnut Lane	Matthews	NC	28104	973-895- 5200	Nonrenewal
Michael Fuchs	1130 Rt. 202, South Building D7	Raritan	NJ	08869	908-541- 9600	Transfer
Craig Picken	1213 Culbreath Dr.	Wilmington	NC	28405	910-509- 7129	Nonrenewal
Joseph Bierschwal	621 Mehring Way	Cincinnati	OH	45202	513-682- 4020	Nonrenewal
Chris Palermo	1101 St. Gregory St.	Cincinnati	OH	45202	513-322- 1717	Nonrenewal
Jim Gorian	PO Box 464	Hudson	OH	44236	330-357- 4335	Nonrenewal
Bert Miller (Still owns primary location)	1735 Market St., Suite 200	Philadelphia	PA	19103	305-424- 8510	Ceased Operations (Secondary location, still operates primary location)
Stan Freemon	790 Wallace Pate Drive	Georgetown	SC	29860	678-480- 4086	Mutual Termination, continues to operate independently
Skip Freeman and Pam Broadman	2010 Gregory Lake Road	North Augusta	SC	29440	864-201- 8885	Nonrenewal
Steve Crane	162 Seven Farms Drive, Suite 235	Charleston	SC	29492	339-224- 6010	Ceased Operations (Steve Crane is the CFO of HireQuest, Inc., as of December 2023)
Gary Cook	1316 Ardmore Lane	Mount Juliet	TN	37122	262-348- 0100	Ceased Operations (Retirement)

EXHIBIT C-2

Hal Daugherty	7460 Warren Parkway, Suite 255	Frisco	TX	75034	972-668-9855	Nonrenewal
Gary Akin	3220 FM 1960 West	Houston	TX	77068	281-580-6020	Nonrenewal
Mike Jamison (2)	1428 E 840 North	Orem	UT	84097	801-434-9265	Nonrenewal
Mike Jamison	1428 East 840 North	Orem	UT	84097	801-434-9265	Nonrenewal
Mark Kennedy	319 McClanahan St. SW	Roanoke	VA	24014	540-563-1688	Nonrenewal
Rob Houghton	2971 Valley Ave.	Winchester	VA	22602	703-395-3466	Nonrenewal
Bill Zbitnoff	8195 166 th Ave NE	Redmond	WA	98052	425-883-1313	Nonrenewal
Michele Davis	7815 Longview Court	Edgerton	WI	53534	608-752-2125	Ceased Operations
Laurie Prochnow (Deceased)	1725 N. 3 rd Ave.	Wausau	WI	54401	715-842-1750	Transfer to other MRI Franchisee
Bill Schepeler	769 N 4 th St	Laramie	WY	82072	307-223-4199	Ceased Operations



Exhibit D

MRINetwork Code of Conduct

(see attached)

EXHIBIT D TO THE FRANCHISE DISCLOSURE DOCUMENT

MRINETWORK CODE OF CONDUCT



MRINETWORK CODE OF CONDUCT

Everyone at MRI is expected to foster a culture in which legal and ethical conduct is recognized, practiced and valued by all – at all times. As part of this commitment, everyone connected with the MRINetwork is required to:

- Obey all laws, rules and regulations that apply to the business.
- Avoid all conflicts of interest between work and personal interests.
- Treat all employees in accordance with fair employment practices.
- Be honest and fair in all business activities with customers, vendors and competitors.
- Endeavor to have all employees work in a safe environment.

This Code of Conduct is intended to set forth obligations of all persons within the MRINetwork. This Code of Conduct does not create any legal obligations on the part of MRI or the MRI members to third parties. MRI has the right, but not the obligation, to enforce this Code and to investigate claimed violations of its provisions and may do so with the assistance of the MRI Representative Council. This Code may be modified by MRI as it may determine, from time to time.

General Application

- a. All communications with candidates, clients, other MRINetwork offices, and Franchisor shall be honest and truthful.
- b. All laws and regulations relating to equal employment opportunity must be obeyed.
- c. Candidate employment background and qualifications must be accurately presented.
- d. No promises or guarantees will be made to candidates or clients that are not intended to be kept.
- e. You must not defame or disparage any other office or its employees in any communications with anyone.
- f. You must not misrepresent your credentials to anyone.
- g. Your office must not knowingly misrepresent its capabilities or its relationship with MRI or other MRINetwork offices.

Candidate Relations

- a. A candidate who is also considering an opportunity with another company will not be given false or misleading information about the other company to dissuade the candidate from accepting the position with the other company or to motivate the candidate to accept the position with your client. It is improper to give the other company false or misleading information about the candidate for the same purpose.
- b. Reference checks will not be conducted without the candidate's permission, as required by the Fair Credit Reporting Act.
- c. Candidate information will be used only in connection with your activities related to the possible placement of the candidate. Confidential information will be treated with care and not distributed or used in a manner other than for which the information was collected.
- d. Presentations made to candidates about positions will be made from the best knowledge of the office's account executive and/or project coordinator.

- e. Candidates must not be involved in fee disputes other than asking them to provide information, including testimony, where necessary.
- f. A candidate will be counseled to not tender his or her resignation from the candidate's current position until such time as the candidate has accepted a Recruiter, unconditional offer from a prospective employer.
- g. Resumes or CVs must not be sent without the candidate's permission, unless the candidate is not identified in the resume or CV.
- h. No fee will be shared with a candidate when doing so would violate applicable laws or regulations.

3. Client Relations

- a. An MRINetwork office must inform its client companies of its service charges before accepting an assignment.
- b. An MRINetwork office will not recruit a candidate from a client company where the office placed the candidate, either directly or indirectly through another office. If such a candidate initiates a request to be placed elsewhere, you may discuss the reasons for the request in an attempt to resolve any problem between the candidate and the client. If the problem cannot be resolved, the candidate must only be provided placement assistance after the candidate has provided you with a signed acknowledgement that the candidate initiated the contact and requested your office's service. A copy of the acknowledgement is included in the Forms Section of the Appendix with a link to an electronic version online in The Resource.
- c. Unsolicited resumes or CVs will not be sent to prospective clients or other offices. An unsolicited resume or CV may be sent to an actual client only when the prior course of dealing with that client establishes that the receipt of such resume would be welcome.
- d. Confidential information will be treated with care and not distributed or used in a manner other than for which the information was collected.
- e. All relevant and reliable reference information, favorable and unfavorable, will be shared with the client. Information protected from disclosure by law will not be shared with a client.
- f. An office will not present a candidate to a client until it or its IOR partner has interviewed the candidate.

Ethical Relations with other MRINetwork Offices, Account Executives and Project Coordinators

- a. The IOR Rules will be honored at all times. All agreements between MRINetwork offices, including those not subject to the IOR Rules, will be honored in all respects, including agreements relating to referrals.
- b. If a service fee is received from a company by mistake on an invoice issued by another office, the service fee will immediately be sent to the office which issued the invoice or returned to the issuing company in the even the payment does not bear the name of the correct office. Such payment will not be deposited or retained, even if the office has a claim against the company for a fee.
- c. Clients and candidates will not be involved in any IOR disputes, except for the solicitation of information and statements which may be relevant to the resolution of the dispute.
- d. Each office must respect the contractual, statutory, and common law rights which govern and protect the relationships between other offices and the other offices' employees. If an office is approached by an employee of another office about prospective employment, it is recommended that you consult with the other office owner to ensure that the other office's rights are not being violated.

Offices are encouraged to resolve such situations by agreement amongst themselves, including compensation when appropriate. If an agreement cannot be reached by the owners, you would be willing to abide by a neutral arbitrator such as an ombudsman / owner representatives of franchise owners.

In no event will any office attempt to solicit or recruit for employment the employees of another MRI office at any activity or meeting sponsored by MRI or any group of MRI offices.

The following are intended as “best practices” for MRI franchise offices:

- Representatives of an MRI franchise operation should not talk to franchise employees of other franchisees about employment without permission of owner.
 - Do not engage in conversations about compensation; cost of operating the franchise business or structures that may be in conflict of current owners.
 - In the case of arbitration, a franchise may be responsible for non-compete fees to release employee or for an override to original owner if recruited without permission and may be subject to disciplinary actions through the rep council ethics committee.
- e. An office will not assist or permit persons who are not their employees or agents to gain access to or utilize materials, databases, intranet websites, or services which are designated or intended for use only by MRI offices.



Exhibit E

Sample Release Language

(see attached)

**EXHIBIT E TO THE
FRANCHISE DISCLOSURE DOCUMENT SAMPLE
RELEASE LANGUAGE**

Releasor, on behalf of itself and its affiliates, officers, directors, shareholders, employees, agents, successors and assigns (“Member Releasors”) hereby releases MRI and the Subsidiaries and their affiliates, officers, directors, shareholders, employees, agents, successors and assigns (“Franchisor Releasees”) from all claims and causes of action which Member Releasors have or may have, whether known or unknown, against them relating to any occurrence or transaction up to and including the Termination Date, including any claims arising out of Member’s purchase of the franchise, the acts of the parties during the term of the Franchise Agreement, the termination of the Franchise Agreement, or the acts of any other member of MRI, including any claim for breach of contract, fraud, unfair competition, violation of any federal or state antitrust, franchise, securities, or other law or regulation.

MEMBER RELEASORS HEREBY WAIVE ANY RIGHTS AND BENEFITS CONFERRED BY ANY APPLICABLE PROVISION OF LAW EXISTING UNDER ANY FEDERAL, STATE OR POLITICAL SUBDIVISION THEREOF WHICH WOULD INVALIDATE ALL OR ANY PORTION OF THE RELEASE CONTAINED HEREIN BECAUSE SUCH RELEASE MAY EXTEND TO CLAIMS WHICH THE MEMBER RELEASORS DO NOT KNOW OR SUSPECT TO EXIST IN THEIR FAVOR AT TIME OF EXECUTION OF THIS AGREEMENT. THE MEMBER RELEASORS ALSO COVENANT NOT TO BRING ANY SUIT, ACTION, OR PROCEEDING, OR MAKE ANY DEMAND OR CLAIM OF ANY TYPE, AGAINST FRANCHISOR RELEASEES WITH RESPECT TO ANY MEMBER RELEASED CLAIM.



Exhibit F

Financial Statements and Guaranty

(see attached)

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
ASSETS		
Current assets		
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>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
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)		
Stockholders' equity		
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
Earnings per share		
Basic	\$ 0.88	\$ 0.40
Diluted	\$ 0.87	\$ 0.39
Weighted average shares outstanding		
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
Cash flows from operating activities		
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
Cash flows from investing activities		
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
Cash flows from financing activities		
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)
Net (decrease) increase in cash	(12,411,914)	9,479,984
Cash, beginning of period	13,667,434	4,187,450
Cash, end of period	\$ 1,255,520	\$ 13,667,434
Supplemental disclosure of non-cash investing and financing activities		
Notes receivable issued for the sale of branches	1,247,040	-
Supplemental disclosure of cash flow information		
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:

	December 31, 2021	December 31, 2020
Due to franchisee	\$ 534,514	\$ 435,072
Risk management incentive program liability	703,379	499,199

Transactions regarding the Worlds Franchisees are summarized below:

	Year ended	
	December 31, 2021	December 31, 2020
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	<u>23,638</u>			

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
Finite-lived intangible assets:							
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>
Indefinite-lived intangible assets:							
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
Current		
Federal	\$ 2,032,751	\$ 1,812,710
State	971,936	696,154
Deferred		
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
Deferred tax assets		
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
Deferred tax liabilities		
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)
Total deferred taxes, net	\$ (472,946)	\$ 79,379

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	\$ 638,064	5.1%	\$ 741,038	11.2%

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:

	December 31, 2021	December 31, 2020
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:

	December 31, 2021	December 31, 2020
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:

	Three months ended	
	December 31, 2021	December 31, 2020
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>
Earnings per share		
Basic	\$ 0.16	\$ 0.10
Diluted	\$ 0.16	\$ 0.10
Weighted average shares outstanding		
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
ASSETS		
Current assets		
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>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
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)		
Stockholders' equity		
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>
Basic earnings per share		
Continuing operations	\$ 0.87	\$ 0.88
Discontinued operations	0.04	-
Total	<u>\$ 0.91</u>	<u>\$ 0.88</u>
Diluted earnings per share		
Continuing operations	\$ 0.87	\$ 0.87
Discontinued operations	0.04	-
Total	<u>\$ 0.91</u>	<u>\$ 0.87</u>
Weighted average shares outstanding		
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
Cash flows from operating activities		
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
Cash flows from investing activities		
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)
Cash flows from financing activities		
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)
Net increase (decrease) in cash	1,793	(12,411)
Cash, beginning of period	1,256	13,667
Cash, end of period	\$ 3,049	\$ 1,256
Supplemental disclosure of non-cash investing and financing activities		
Notes receivable issued for the sale of branches	350	1,247
Amounts payable related to the purchase of acquisition	1,800	-
Supplemental disclosure of cash flow information		
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
Finite-lived intangible assets:							
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
Indefinite-lived intangible assets:							
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
Current		
Federal	\$ 1,874	\$ 2,030
State	434	972
Deferred		
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
Deferred tax assets		
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
Deferred tax liabilities		
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):

	Three months ended	
	December 31, 2022	December 31, 2021
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>
Basic earnings per share		
Continuing operations	\$ 0.19	\$ 0.16
Discontinued operations	0.01	-
Total	<u>\$ 0.20</u>	<u>\$ 0.16</u>
Diluted earnings per share		
Continuing operations	\$ 0.19	\$ 0.16
Discontinued operations	0.01	-
Total	<u>\$ 0.20</u>	<u>\$ 0.16</u>
Weighted average shares outstanding		
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.

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 Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of HireQuest, Inc. and subsidiaries (the “Company”) as of December 31, 2023, the related consolidated statements of income, changes in stockholders’ equity, and cash flow for the year ended December 31, 2023, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and the results of its operations and its cash flows for the year ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audit.

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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit 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 audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matter

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

Workers' Compensation Claims Liability

The Company's workers' compensation claims liability balance was \$6.6 million as of December 31, 2023. As further described in Notes 1 and 5 to the consolidated financial statements, 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 engages an independent actuary to estimate the future costs of these claims.

We identified the worker's compensation claims liability as a critical audit matter. The principal considerations for our determination are the complexity and subjectivity of the judgments, estimates and assumptions that management utilized in determining their liability for workers' compensation claims. This required a high degree of auditor effort and judgment in evaluating management's estimates and assumptions as it relates to the workers' compensation liability, including the use of an auditor's specialist.

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

- We obtained an understanding of management's process for the determination of the workers' compensation claims liability, including the actuarial methods and assumptions utilized to support the liability calculations.
- We reconciled the estimate per the actuarial report to the Company's liability recorded in the general ledger.
- We tested the completeness and accuracy of the historical loss claims data provided to the Company's actuary used in the development of the workers' compensation claims liability.
- We engaged an actuary as an auditor's specialist to independently assess the Company's consulting actuary's selection of actuarial methods and assumptions and to evaluate the reasonableness of the resulting workers' compensation claims liability estimate.

/s/ FORVIS, LLP

We have served as the Company's auditor since 2023.

**Tampa, Florida
March 21, 2024**

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 sheet of HireQuest, Inc. (the “Company”) as of December 31, 2022, the related statement of operations, changes in stockholders' equity, and cash flows for the year 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 the results of its operations and its cash flows for the year 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 audit. 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 audit 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 audit, 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 audit 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 audit 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 audit provides a reasonable basis for our opinion.

/s/ Plante & Moran, PLLC

We served as the Company's auditor from 2017 to 2023.
Denver, Colorado
March 21, 2023

HireQuest, Inc.
Consolidated Balance Sheets

(in thousands except par value data)	December 31, 2023	December 31, 2022
ASSETS		
Current assets		
Cash	\$ 1,342	\$ 3,049
Accounts receivable, net of allowance for doubtful accounts	44,394	45,728
Notes receivable	1,788	817
Prepaid expenses, deposits, and other assets	3,283	1,833
Prepaid workers' compensation	646	503
Total current assets	51,453	51,930
Property and equipment, net	4,280	4,353
Workers' compensation claim payment deposit	1,469	1,231
Franchise agreements, net	21,440	23,144
Other intangible assets, net	10,162	10,690
Goodwill	5,870	5,870
Deferred tax asset	325	-
Other assets	102	325
Notes receivable, net of current portion and reserve	7,834	2,675
Intangible assets held for sale - discontinued operations	891	3,065
Total assets	<u>\$ 103,826</u>	<u>\$ 103,283</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 137	\$ 448
Line of credit	14,119	12,543
Term loans payable	514	704
Other current liabilities	2,338	3,408
Accrued wages, benefits and payroll taxes	4,286	5,602
Due to franchisees	9,881	9,846
Risk management incentive program liability	565	877
Workers' compensation claims liability	3,871	3,352
Total current liabilities	35,711	36,780
Term loans payable, net of current portion	132	3,291
Workers' compensation claims liability, net of current portion	2,766	2,573
Deferred tax liability	-	60
Franchisee deposits	2,485	2,325
Total liabilities	41,094	45,029
Commitments and contingencies (Note 11)		
Stockholders' equity		
Preferred stock - \$0.001 par value, 1,000 shares authorized; none issued	-	-
Common stock - \$0.001 par value, 30,000 shares authorized; 13,997 and 13,918 shares issued, respectively	14	14
Additional paid-in capital	34,527	32,844
Treasury stock, at cost - 44 and 40 shares, respectively	(146)	(146)
Retained earnings	28,337	25,542
Total stockholders' equity	62,732	58,254
Total liabilities and stockholders' equity	<u>\$ 103,826</u>	<u>\$ 103,283</u>

See accompanying notes to consolidated financial statements.

HireQuest, Inc.
Consolidated Statements of Income

	Year ended	
	December 31, 2023	December 31, 2022
(in thousands, except per share data)		
Franchise royalties	\$ 35,813	\$ 28,897
Service revenue	2,069	2,055
Total revenue	37,882	30,952
Selling, general and administrative expenses	24,448	12,874
Depreciation and amortization	2,793	2,040
Income from operations	10,641	16,038
Other miscellaneous expense	(1,738)	(2,047)
Interest income	263	247
Interest and other financing expense	(1,386)	(368)
Net income before income taxes	7,780	13,870
Provision for income taxes	1,345	1,895
Net income from continuing operations	6,435	11,975
(Loss) income from discontinued operations, net of tax	(300)	483
Net income	\$ 6,135	\$ 12,458
Basic earnings per share		
Continuing operations	\$ 0.47	\$ 0.87
Discontinued operations	(0.02)	0.04
Total	\$ 0.45	\$ 0.91
Diluted earnings per share		
Continuing operations	\$ 0.47	\$ 0.87
Discontinued operations	(0.02)	0.04
Total	\$ 0.45	\$ 0.91
Weighted average shares outstanding		
Basic	13,733	13,654
Diluted	13,801	13,721

See accompanying notes to consolidated financial statements.

HireQuest, Inc.
Consolidated Statement of Changes in Stockholders' Equity

(in thousands)	Common stock		Treasury stock amount	Additional paid- in capital	Retained earnings	Total stockholders' equity
	Shares	Par value				
Balance at December 31, 2021	13,745	\$ 14	\$ (146)	\$ 30,472	\$ 16,395	\$ 46,735
Stock-based compensation	-	-	-	2,372	-	2,372
Cash dividends (\$0.06 per share)	-	-	-	-	(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
Stock-based compensation	-	-	-	1,683	-	1,683
Cash dividends (\$0.06 per share)	-	-	-	-	(3,340)	(3,340)
Restricted common stock granted for services	79	-	-	-	-	-
Net income	-	-	-	-	6,135	6,135
Balance at December 31, 2023	13,997	\$ 14	\$ (146)	\$ 34,527	\$ 28,337	\$ 62,732

See accompanying notes to consolidated financial statements.

HireQuest, Inc.
Consolidated Statement of Cash Flow

(in thousands)	Year ended	
	December 31, 2023	December 31, 2022
Cash flows from operating activities		
Net income	\$ 6,135	\$ 12,458
Loss (income) from discontinued operations	300	(483)
Net income from continuing operations	6,435	11,975
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	2,793	2,040
Non-cash interest and loss on debt extinguishment	354	95
Allowance for losses on notes receivable	540	350
Stock based compensation	1,683	2,372
Deferred taxes	(349)	(412)
Loss on disposition of intangible assets	2,027	2,233
Changes in operating assets and liabilities:		
Accounts receivable	1,334	(974)
Prepaid expenses, deposits, and other assets	(1,452)	(9)
Prepaid workers' compensation	(143)	(134)
Accounts payable	(311)	(2,192)
Risk management incentive program liability	(312)	(755)
Other current liabilities	(1,153)	230
Accrued wages, benefits and payroll taxes	(1,316)	1,450
Due to franchisees	35	2,350
Workers' compensation claim payment deposit	(238)	(284)
Workers' compensation claims liability	712	(2,325)
Net cash provided by operating activities - continuing operations	10,639	16,010
Net cash provided by operating activities - discontinued operations	(18)	868
Net cash provided by operating activities	10,621	16,878
Cash flows from investing activities		
Purchase of acquisitions	(9,750)	(32,355)
Purchase of property and equipment	(98)	(100)
Proceeds from the sale of purchased locations	2,273	9,317
Proceeds from payments on notes receivable	919	799
Cash issued for notes receivable	(198)	(125)
Investment in intangible assets	(390)	(1,377)
Net change in franchisee deposits	160	267
Net cash used in investing activities	(7,084)	(23,574)
Cash flows from financing activities		
Payment on term loan payable	(3,349)	(571)
Payments related to debt issuance	(131)	-
Net proceeds from revolving line of credit	1,576	12,371
Payment of dividends	(3,340)	(3,311)
Net cash (used in) provided by financing activities	(5,244)	8,489
Net (decrease) increase in cash	(1,707)	1,793
Cash, beginning of period	3,049	1,256
Cash, end of period	\$ 1,342	\$ 3,049
Supplemental disclosure of non-cash investing and financing activities		
Notes receivable issued for the sale of branches	7,392	350
Amounts payable related to the purchase of acquisition	-	1,800
Supplemental disclosure of cash flow information		
Interest paid	1,348	273
Income taxes paid	2,817	3,048

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 December 4, 2023 we completed our acquisition of TEC Staffing Services (“TEC”) to acquire ten locations in Arkansas for \$9.8 million. TEC has been a premier provider of staffing services to the employers and workers in Northwest and Central Arkansas for over 40 years.

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, Texas. 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 across the US and internationally.

For additional information related to these transactions, see *Note 2 - Acquisitions*.

As of December 31, 2023 we had approximately 427 franchisee-owned offices and 1 company-owned office in 42 states, the District of Columbia, and 13 countries outside of the United States. We are the employer of record to approximately 73 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, 2023 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 account.

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 franchisees with a lower royalty scale generally pay a flat annual fee plus a percentage-based royalty. For contract staffing, MRI franchisees pay a royalty that ranges from 20% to 25% of payroll, depending on sales volume. Some customers that utilize qualified independent contractors cause the franchisee to pay a royalty that ranges from 4% to 10% of contractor payments, depending on sales volume. Royalty fees from the Snelling and SearchPath 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.

Advertising fund revenue includes contributions to our National Advertising Fund by franchisees. Revenue related to these contributions is based on a percentage of sales of certain franchised locations and is recognized as earned.

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, 2023	December 31, 2022
HireQuest Direct model	\$ 15,640	\$ 16,224
HireQuest, Snelling, DriverQuest, HireQuest Health, and Northbound	12,318	12,204
MRI	7,855	469
Total	<u>\$ 35,813</u>	<u>\$ 28,897</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 flow, 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 credit losses on notes receivable was approximately \$623 thousand and \$260 thousand at December 31, 2023 and December 31, 2022, 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 reserve for credit losses on notes receivable from non-franchisees was \$-0- at December 31, 2023 and December 31, 2022.

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 grant date fair value of stock awards is based on the quoted price of our common stock on the grant date. The grant date fair value of option awards is determined using the Black-Scholes valuation model.

Debt Issuance Costs

Debt issuance costs associated with our revolving line of credit is 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 \$109 thousand and \$334 thousand at December 31, 2023 and December 31, 2022, 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 2023 or 2022.

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 assets 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, 2023 we had a single reporting unit.

There were no changes to our goodwill in 2023. The table below summarizes our goodwill at December 31, 2023 and at December 31, 2022 (in thousands):

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, 2023	<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 exceeds 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, either because the group of assets does not meet the definition of a business or because substantially all of the fair value of the gross assets acquired are concentrated in a single asset or group of similar assets, 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, 2023 and December 31, 2022 totaled approximately 155 thousand and 215 thousand, respectively.

Diluted common shares outstanding were calculated using the treasury stock method and are as follows (in thousands):

	Year ended	
	December 31, 2023	December 31, 2022
Weighted average number of common shares used in basic net income per common share	13,733	13,654
Dilutive effects of stock options and unvested restricted stock	68	67
Weighted average number of common shares used in diluted net income per common share	13,801	13,721

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.
- Leasehold improvements – lesser of useful life or remaining lease term

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, 2023 and at December 31, 2022, 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 contract staffing services provided by MRI offices and for our company-owned office, 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 for contract staffing services provided by MRI offices and generated by our company-owned office was approximately \$199 thousand and \$70 thousand at December 31, 2023 and December 31, 2022, respectively.

Advertising and Marketing Costs

We expense advertising and marketing costs as we incur them. These costs were \$1.2 million and \$272 thousand in 2023 and 2022, 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.

[Table of Contents](#)

The carrying amounts of cash, accounts receivable, accounts payable, the line of credit and all other current assets and liabilities approximate fair values due to their short-term nature. The fair value of notes receivable approximates the amortized cost basis as adjusted by an allowance for credit losses, as we believe the stated interest rates reflects the prevailing market rates given our unique collateral position and the scarce capital resources willing to finance a franchise. The fair value of the term loan payable approximates its carrying value because current rates for similar borrowings do not have a material impact.

	Total	December 31, 2023		
		Level 1	Level 2	Level 3
Cash	\$ 1,342	\$ 1,342	\$ -	\$ -
Notes receivable	9,622	-	9,622	-
Accounts receivable	44,394	-	44,394	-
Total assets at fair value	\$ 55,358	\$ 1,342	\$ 54,016	\$ -
Term loan payable	\$ 646	\$ -	\$ 646	\$ -
Line of credit	14,119	-	14,119	-
Total liabilities at fair value	\$ 14,765	\$ -	\$ 14,765	\$ -

	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	\$ -

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 \$70 thousand and \$62 thousand during the years ended December 31, 2023 and December 31, 2022, respectively

Recently Adopted And Not Yet Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“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 replaced the “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 was adopted at the beginning of the first quarter of 2023. The adoption of this guidance did not have a significant impact on our financial statements. Related disclosure has been updated to reflect the new standard.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. On December 21, 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848), Deferral of the Sunset Date of Topic 848*, which extends the period of time financial statement preparers can utilize the reference rate reform relief guidance contained in ASU 2022-04. The guidance provides optional practical expedients to ease the potential burden in accounting for contract modifications and hedge accounting related to reference rate reform. The provisions apply only to those transactions that reference the London Inter-Bank Offered Rate (LIBOR) or another reference rate expected to be discontinued due to reference rate reform. On February 28, 2023 the Company refinanced its credit agreement and a term loan that each referenced LIBOR into a replacement line of credit that references the Bloomberg Short-Term Bank Yield Index (“BSBY”), therefore the optional expedient is no longer relevant to the Company’s financial statements and related disclosures.

In October 2021, the FASB issued ASU 2021-08, *Business Combinations – Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. The guidance is intended to improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice. The guidance requires an acquirer to recognize and measure contract assets and liabilities acquired in a business combination in accordance with Topic 606 as if it had originated the contracts, as opposed to at fair value on the acquisition date. The standard became effective for the Company on January 1, 2023 and was applied prospectively to acquisitions occurring after the adoption date. The adoption of this new guidance did not have a material impact on the Company’s financial statements and related disclosures.

In October 2023, the FASB issued ASU 2023-06, *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*. In U.S. Securities and Exchange Commission (SEC) Release No. 33-10532, *Disclosure Update and Simplification*, issued August 17, 2018, the SEC referred certain of its disclosure requirements that overlap with, but require incremental information to, generally accepted accounting principles (GAAP) to the FASB for potential incorporation into the FASB Accounting Standards Codification® (Codification). The Codification is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. ASU 2023-06 is the result of the Board's decision to incorporate into the Codification 14 of the 27 disclosures referred by the SEC. Since we are already subject to the SEC's existing disclosure requirements, the effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. The adoption of this new guidance should *not* have any impact on the Company's financial statements and related disclosures.

In November 2023, FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which requires disclosure of incremental segment information on an interim and annual basis, primarily regarding significant segment expenses and information used to assess segment performance. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods beginning after December 15, 2024. Retrospective application is required for all periods presented. ASU 2023-07 is not expected to have a significant impact on the Company's financial statements.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740) - Improvements to Income Tax Disclosures*, which requires enhancements and further transparency to certain income tax disclosures, primarily to the tax rate reconciliation and income taxes paid. This ASU is effective for fiscal years beginning after December 15, 2024, on a prospective basis with retrospective application permitted. ASU 2023-09 is not expected to have a significant impact on the Company's financial statements.

There are no other new accounting pronouncements, issued or effective during the fiscal year, that are expected to have a significant impact on our financial statements and related disclosures.

Note 2 – Acquisitions

Business Combinations

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 was a staffing division of dmDickason Personnel Services, a family-owned company based in El Paso, TX. The acquisition of Temporary Alternatives expanded 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	\$	7,043
Customer lists	\$	4,000
Accounts receivable		2,668
Goodwill		375
Purchase price allocation	\$	7,043

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 \$523 thousand is included in our consolidated statement of income for the year ended December 31, 2023.

	Year Ended	
	December 31, 2023	December 31, 2022
Total revenue	\$ 37,882	\$ 31,097
Net income	6,135	13,312
Basic earnings per share	\$ 0.45	\$ 0.98
Basic weighted average shares outstanding	13,733	13,654
Diluted earnings per share	\$ 0.45	\$ 0.98
Diluted weighted average shares outstanding	13,801	13,721

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 expedited growth into a new staffing vertical, expand our national footprint, and grew 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	\$	2,462
Customer relationships	\$	1,600
Customer lists		200
Accounts receivable		462
Goodwill		200
Purchase price allocation	\$	2,462

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 \$104 thousand is included in our consolidated statement of income for the year ended December 31, 2023.

	Year Ended	
	December 31, 2023	December 31, 2022
Total revenue	\$ 37,882	\$ 31,303
Net income	6,135	12,429
Basic earnings per share	\$ 0.45	\$ 0.91
Basic weighted average shares outstanding	13,733	13,654
Diluted earnings per share	\$ 0.45	\$ 0.91
Diluted weighted average shares outstanding	13,801	13,721

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 loss of approximately \$478 thousand during the three months ended March 31, 2022. 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 resulting in a net recognized gain of approximately \$150 thousand. The remaining assets related to the operations of the other acquired locations have not been sold and as of December 31, 2023 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 location as a company-owned branch.

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 expedited our growth into a new staffing vertical, expanded our national footprint, and grew 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		<u>(1,652)</u>
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 \$1.1 million is included in our consolidated statement of income for the year ended December 31, 2023.

	Year Ended	
	December 31, 2023	December 31, 2022
Total revenue	\$ 37,882	\$ 31,140
Net income	6,135	13,510
Basic earnings per share	\$ 0.45	\$ 0.99
Basic weighted average shares outstanding	13,733	13,654
Diluted earnings per share	\$ 0.45	\$ 0.99
Diluted weighted average shares outstanding	13,801	13,721

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%. For additional information related to the term loan see *Note 4 - Line of Credit and Term Loans*.

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 expedited our growth into a new staffing vertical, expanded our national footprint, and grew 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>
Franchise relationships	\$	5,640
Trade name		2,180
Royalty receivable		575
Current assets		581
Goodwill		4,795
Current liabilities assumed		<u>(488)</u>
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 \$7.9 million are included in our consolidated statement of income for the year ended December 31, 2023.

	Year Ended	
	December 31, 2023	December 31, 2022
Total revenue	\$ 37,882	\$ 41,995
Net income	6,135	17,813
Basic earnings per share	\$ 0.45	\$ 1.30
Basic weighted average shares outstanding	13,733	13,654
Diluted earnings per share	\$ 0.45	\$ 1.30
Diluted weighted average shares outstanding	13,801	13,721

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

TEC, The Employment Company

On December 4, 2023 we completed our acquisition of the customer relationships of TEC, The Employment Company in accordance with the terms of the Asset Purchase Agreement dated October 23, 2023 (the "TEC Agreement"). TEC was a premier provider of industrial staffing services to the employers in Northwest and Central Arkansas for over 40 years.

The following table summarizes the estimated fair values of the identifiable assets acquired as of the acquisition date:

Cash consideration	\$	9,750
Total consideration	\$	<u>9,750</u>
Customer relationships	\$	<u>9,750</u>

We determined the TEC 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 relationships. Accordingly, no pro forma financial information is presented.

Franchise royalties attributable to the acquiree of approximately \$107 thousand are included in our consolidated statement of income for the year ended December 31, 2023.

Immediately after the acquisition, we sold all of the assets acquired. In connection with their purchase, the buyers executed franchise agreements with us and became franchisees. The aggregate sale price for the assets was approximately \$7.6 million. In conjunction with the sale of assets acquired in this transaction, we recognized a loss of approximately \$2.1 million which is reflected on the line item, "Other miscellaneous expense," in our consolidated statement of income.

Note 3 – Related Party Transactions

Prior to entering into a new related party transaction which is disclosable, the Audit Committee reviews and monitors all relevant information available. In addition, the Audit Committee reviews a summary of related parties and related party transactions on a quarterly basis. The Audit Committee, in its sole discretion, *may* 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.

Several significant shareholders and directors of HQI own portions of Jackson Insurance Agency, Bass Underwriters, Inc., Insurance Technologies, Inc., and a number of our franchisees (in whole or in part).

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.

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, 2023 and December 31, 2022, Jackson Insurance and Bass invoiced HQI approximately \$1.7 million and \$336 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. As of December 31, 2023 and December 31, 2022, Jackson Insurance and Bass was owed \$-0-.

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, 2023 and December 31, 2022, Insurance Technologies invoiced HQI approximately \$443 thousand and \$245 thousand, respectively, for services provided pursuant to this agreement. As of December 31, 2023 and December 31, 2022, Insurance Technologies was owed \$-0- and \$35 thousand, respectively.

The Worlds Franchisees

Mr. Hermanns' children and Mr. Jackson have direct or indirect ownership interests in certain of our franchisees (the “Worlds Franchisees”). There were 34 Worlds Franchisees at December 31, 2023 that operated 70 of our 427 offices. There were 27 Worlds Franchisees that operated 67 of our 435 offices at December 31, 2022.

Balances regarding the Worlds Franchisees are summarized below:

	December 31, 2023	December 31, 2022
Due to franchisee	\$ 2,677	\$ 1,154
Risk management incentive program liability	267	234

Transactions regarding the Worlds Franchisees are summarized below:

	Year ended	
	December 31, 2023	December 31, 2022
Franchisee royalties	\$ 9,577	\$ 8,676

Note 4 – Line of Credit and Term Loans

Revolving Credit Agreement with Bank of America, N.A.

On February 28, 2023 the Company and all of its subsidiaries as borrowers entered into a Revolving Credit Agreement with Bank of America, N.A. for a \$50,000,000 revolving facility (the “Senior Credit Facility”), which includes a \$20,000,000 sublimit for the issuance of standby letters of credit. The Company also has 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. As of December 31, 2023 this has not been exercised. The Senior Credit Facility replaced the Company's prior \$60 million credit agreement with Truist Bank. The Senior Credit Facility provides for certain financial covenants including maintaining 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. As of December 31, 2023 we were in compliance with all covenants.

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. At December 31, 2023 the effective interest rate was approximately 6.7%. The Senior Credit Facility will mature on February 28, 2028. As part of this refinancing we recorded a loss on debt extinguishment of approximately \$310 thousand, which is reflected on the line item, "Interest and other financing expense," in our consolidated statement of income for the year ended December 31, 2023.

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 Company 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 Company as collateral including, without limitation, their accounts and notes receivable, intellectual property and the real estate owned by HQ Real Property Corporation.

At December 31, 2023, approximately \$9.2 million of availability under the Senior Credit Facility 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 payroll funding account. For additional information related to the letter of credit securing our workers’ compensation obligations see *Note 5 - Workers’ Compensation Insurance and Reserves*.

Revolving Credit and Term Loan Agreement with Truist Bank

On June 29, 2021 the Company and all of its subsidiaries as borrowers (collectively, the "Borrowers") entered into a Revolving Credit and Term Loan Agreement with Truist Bank, as Administrative Agent, and the lenders from time to time made a party thereto (the "Truist Credit Agreement"), pursuant to which the lenders extended the Borrowers (i) a \$60 million revolving line of credit with a \$20 million sublimit for letters of credit (the "Line of Credit") and (ii) a \$3,153,500 term loan (the "Term Loan"). Truist Bank may also make Swingline Loans available in its discretion. Interest accrued on the outstanding balance of the Line of Credit at a variable rate equal to (a) the LIBOR Index Rate plus a margin between 1.25% and 1.75% per annum or (b) the then applicable Base Rate, as that term is defined in the Credit Agreement plus a margin between 0.25% and 0.75% per annum. In each case, the applicable margin was determined by the Company's Average Excess Availability on the Line of Credit, as defined in the Credit Agreement. Interest accrued on the Term Loan at a variable rate equal to (a) the LIBOR Index Rate plus 2.0% per annum or (b) the then applicable Base Rate plus 1.0% per annum. In addition to interest on outstanding principal under the Truist Credit Agreement, the Borrowers paid a commitment fee on the unused portion of the Line of Credit in an amount equal to 0.25% per annum. All loans made pursuant to the Line of Credit were to mature on June 29, 2026. The Term Loan was based upon a 15-year amortization of the original principal amount of the Term Loan with the remaining principal balance 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.

Term Loan

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 the Senior Credit Facility. 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, 2023 (in thousands):

2024	\$	514
2025		132
Total future maturities	<u>\$</u>	<u>646</u>

Note 5 – Workers’ Compensation Insurance and Reserves

Beginning in March 2014, one of predecessor entities ("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 Hirequest Insurance Company ("HQ Ins."), a North Carolina protected cell captive insurance company, 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.

[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 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 \$9.2 million, which we accomplished by providing letters of credit under our agreement with Bank of America. 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, 2023	December 31, 2022
Estimated future claims liabilities at the beginning of the period	\$ 5,925	\$ 8,249
Claims paid during the period	(5,192)	(3,936)
Additional future claims liabilities recorded during the period	5,904	1,612
Estimated future claims liabilities at the end of the period	<u>\$ 6,637</u>	<u>\$ 5,925</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, 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>
Purchased in 2023	7
Opened in 2023	14
Closed in 2023	(29)
Franchised offices, December 31, 2023	<u>427</u>

At December 31, 2023 HQI had one company-owned office, which is the Philadelphia location acquired in the Dubin acquisition. At December 31, 2022 HQI had two company-owned offices, which were the staffing division acquired in the Dental Power acquisition and the Philadelphia location acquired in the Dubin acquisition. Activity from these locations 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 2023 and 2022 (total paid in thousands):

Declaration date	Dividend		Total paid	
March 1, 2022	\$	0.06	\$	822
June 1, 2022		0.06		827
September 1, 2022		0.06		829
December 1, 2022		0.06		833
March 1, 2023		0.06		833
June 1, 2023		0.06		835
September 1, 2023		0.06		836
December 1, 2023		0.06		836

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 2023, we issued 9,375 shares valued at approximately \$158 thousand under this program. During 2022, we issued approximately 10 thousand shares valued at approximately \$155 thousand under this program.

In 2023, we issued 12,498 shares of restricted common stock pursuant to the 2019 Plan valued at approximately \$231 thousand to members of our Board of Directors for their services in lieu of cash compensation. Of these, 10,413 shares vested equally over the three months post grant. The remaining 2,085 shares were issued pursuant to our share purchase match program. Also in 2023, we issued 6,131 shares pursuant to our share purchase match program related to open market purchases by members of our Board of Directors.

Also in 2023, we issued 65,431 shares of restricted common stock pursuant to the 2019 Plan valued at approximately \$1.3 million to key employees for their services in lieu of cash compensation. Of these, 9,272 shares were issued to our CEO and vest equally over the three months post grant. Of the remaining shares, 55,000 vest over 4 years and 1,159 shares were issued pursuant to our share purchase match program and vest the second anniversary of the date of grant.

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.

[Table of Contents](#)

The following table summarizes our restricted stock outstanding at December 31, 2021, and changes during the years ended December 31, 2022 and December 31, 2023 (number of shares in thousands):

	Shares	Weighted average grant date price
Non-vested, December 31, 2021	196	11.26
Granted	173	15.97
Vested	(167)	11.46
Non-vested, December 31, 2022	202	15.15
Granted	79	19.43
Vested	(126)	15.50
Non-vested, December 31, 2023	155	17.52

At December 31, 2023, there was unrecognized stock-based compensation expense totaling approximately \$1.6 million relating to non-vested restricted stock grants that will be recognized over the next 3.9 years.

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, 2023 and December 31, 2022. All outstanding stock options were vested at December 31, 2023 and December 31, 2022. There were no options issued in 2023 or 2022.

The following table summarizes our stock options outstanding at December 31, 2021, and changes during the years ended December 31, 2022 and December 31, 2023 (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, 2021	13	\$ 5.47	\$ 2.98
Granted	-	-	-
Outstanding, December 31, 2022	13	5.47	2.98
Granted	-	-	-
Outstanding, December 31, 2023	13	5.47	2.98

The following table summarizes additional information about our outstanding stock options, and reflects the intrinsic value recalculated based on the closing price of our common stock of \$15.35 on December 29, 2023 (number of shares and intrinsic value 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	4.23	\$ 128
Exercisable	13	5.47	4.23	128

Note 9 – Property and Equipment

The following table summarizes the book value of our assets and accumulated depreciation (in thousands):

	December 31, 2023	December 31, 2022
Land	\$ 472	\$ 472
Buildings and improvements	4,147	4,115
Furniture and fixtures	730	663
Accumulated depreciation	(1,069)	(897)
Total property and equipment, net	\$ 4,280	\$ 4,353

We own our corporate headquarters in Goose Creek, SC. Excess capacity is leased to an unrelated third party. Gross rental income was approximately \$186 thousand and \$195 thousand during the years ended December 31, 2023 and December 31, 2022, 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 \$172 thousand and \$201 thousand during the years ended December 31, 2023 and December 31, 2022, respectively.

Note 10 – Intangible Assets

The following table reflects our intangible assets (in thousands except useful life):

	Estimated useful life (in years)	December 31, 2023			December 31, 2022		
		Gross	Accumulated amortization	Net	Gross	Accumulated amortization	Net
Finite-lived intangible assets:							
Franchise agreements	15	\$ 25,556	\$ (4,116)	\$ 21,440	\$ 25,556	\$ (2,412)	\$ 23,144
Customer lists	10	-	-	-	-	-	-
Purchased software	7	3,200	(1,029)	2,171	3,200	(571)	2,629
Internally developed software	5	2,683	(498)	2,185	2,294	(39)	2,255
Total finite-lived intangible assets		\$ 31,439	\$ (5,643)	\$ 25,796	\$ 31,050	\$ (3,022)	\$ 28,028
Indefinite-lived intangible assets:							
Domain name	Indefinite	\$ 2,226	\$ -	\$ 2,226	\$ 2,226	\$ -	\$ 2,226
Trade name	Indefinite	3,580	-	3,580	3,580	-	3,580
Total intangible assets		\$ 37,245	\$ (5,643)	\$ 31,602	\$ 36,856	\$ (3,022)	\$ 33,834

Amortization expense related to intangible assets totaled approximately \$2.6 million and \$2.2 million during the years ended December 31, 2023 and December 31, 2022, respectively.

The following table provides the estimated future amortization of finite-lived intangible assets as of December 31, 2023 (in thousands):

2024	\$ 2,625
2025	2,626
2026	2,625
2027	2,587
2028	2,051
Thereafter	13,282
Total future amortization	\$ 25,796

Note 11 – Commitments and Contingencies
Franchise Acquisition Indebtedness

We financed the sale of several acquired offices to new franchisees with notes receivable. In some instances, this financing resulted in certain franchisees 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 franchisees 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 franchisees determined to be VIE's on December 31, 2023 and December 31, 2022 was approximately \$8.2 million and \$2.8 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, 2023.

Note 12 – Income Tax

The provision for income taxes is comprised of the following (in thousands):

	December 31, 2023	December 31, 2022
Current taxes		
Federal	\$ 1,080	\$ 1,874
State	614	434
Total current taxes	1,694	2,308
Deferred taxes		
Federal	(332)	(279)
State	(17)	(134)
Total deferred taxes	(349)	(413)
Provision for income taxes	\$ 1,345	\$ 1,895

[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 (in thousands):

	December 31, 2023	December 31, 2022
Deferred tax assets		
Workers' compensation claims liability	1,578	\$ 1,227
Bad debt reserve	49	17
Accrued vacation	80	73
Impairment of notes receivable	153	63
Stock based compensation	92	268
Net operating loss carryforward	92	123
Other	40	87
Total deferred tax asset	2,084	1,858
Deferred tax liabilities		
Depreciation and amortization	(1,702)	(1,918)
Deferred gain on installment sale	(57)	-
Total deferred tax liabilities	(1,759)	(1,918)
Total deferred taxes, net	\$ 325	\$ (60)

At December 31, 2023, the Company has a federal net operating loss carry-forward of approximately \$209 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 were approximately 17.3% and 13.7% for 2023 and 2022, respectively. 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, 2023		December 31, 2022	
Income tax expense based on statutory rate	\$ 1,634	21.0%	\$ 2,913	21.0%
Non-deductible executive compensation	142	1.8%	120	0.9%
Stock based compensation	(77)	(1.0)%	(75)	(0.5)%
State income taxes expense net of federal taxes	468	6.0%	210	1.5%
WOTC	(925)	(11.9)%	(1,269)	(9.1)%
Other	103	1.3%	(4)	(0.0)%
Total taxes on income	\$ 1,345	17.3%	\$ 1,895	13.7%

U.S. federal income tax returns after 2020 remain open to examination. Generally, state income tax returns after 2019 remain open to examination. No income tax returns are currently under examination. As of December 31, 2023, and December 31, 2022, 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 \$9.6 million and \$3.5 million as of December 31, 2023 and December 31, 2022, 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 \$263 thousand and \$247 thousand during the year ended December 31, 2023 and December 31, 2022, 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 \$623 thousand and \$260 thousand as of December 31, 2023 and December 31, 2022, respectively, for potentially uncollectible notes receivable from franchisees.

The following table summarizes changes in our notes receivable balance to franchisees (in thousands):

	December 31, 2023	December 31, 2022
Note receivable	\$ 10,245	\$ 3,752
Allowance for losses	(623)	(260)
Notes receivable, net	<u>\$ 9,622</u>	<u>\$ 3,492</u>

Notes Receivable from Non-Franchisees

During 2020, the California licensee 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 their note payable to the Company 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 of approximately \$233 thousand in June 2022. In August 2022 we provided a third forbearance agreement to avoid foreclosure action.

We did not receive or recognize any interest income related to notes receivable from non-franchisees during the years ended December 31, 2023 or December 31, 2022. There was no balance due from non-franchisees at December 31, 2023 or December 31, 2022.

Note 14 – Discontinued Operations

In connection with the Dubin acquisition, certain assets acquired are still owned by us and classified as held-for-sale. When we acquired Dubin, there were two business lines. Dubin Workforce Solutions specialized in temporary labor assignments. The Dubin Group focused on permanent recruiting. We immediately sold the assets of Dubin Workforce Solutions to a new franchisee. There was not a franchisee identified for the Dubin Group portion of the business, however, we began marketing the franchise and classified it as held-for-sale immediately upon acquisition. We entered into an employment agreement with the seller to continue managing the business as a Company-owned location while it was held-for-sale. During 2023, we actively solicited but did not receive any reasonable offers to purchase the assets and, in response, have adjusted the price. The franchise continues to be actively marketed at a price that is reasonable given its results of operation. We expect to complete a sale of these assets within the next 12 months.

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, we agreed to sell the Dental Power assets 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 recognized a gain of approximately \$340 thousand in the first quarter of 2023 upon completion of the transaction.

Intangible assets associated with discontinued operations consist of customer lists with a net carrying value of approximately \$891 thousand and \$3.1 million at December 31, 2023 and December 31, 2022, respectively. In conjunction with our annual impairment test of intangible assets in December of 2023, we recognized a loss of approximately \$514 thousand related to a write down of the Dubin customer list.

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, 2023	December 31, 2022
Revenue	\$ 1,777	\$ 6,313
Cost of staffing services	1,145	4,505
Gross profit	632	1,808
Selling, general and administrative expense	(713)	(795)
Gain on sale of intangible assets	197	-
Amortization	-	(384)
Impairment of intangible asset	(514)	-
Net (loss) income before income taxes	(398)	629
(Benefit) provision for income taxes	(98)	146
Net (loss) income	<u>\$ (300)</u>	<u>\$ 483</u>

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 MRI 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 2024 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 8th day of May 2024.

Guarantor: HireQuest, Inc.

By: 

Name: John D. McAnnar

Title: Chief Legal Officer



Exhibit G

Agents for Service of Process

(see attached)

**EXHIBIT G TO THE FRANCHISE DISCLOSURE
DOCUMENT AGENTS FOR SERVICE OF
PROCESS**

State	State Agency	Agent for Service of Process
CALIFORNIA	Commissioner, Department of Financial Protection and Innovation 320 West 4th Street, Suite 750 Los Angeles, CA 90013 (213) 576-7505 Toll-free (866-275-2677)	California Commissioner of Financial Protection and Innovation; and CT Corporation System 330 N Brand Blvd. Glendale, CA 91203-2336
HAWAII	Business Registration Division Department of Commerce and Consumer Affairs 335 Merchant Street, Room 203 Honolulu, HI 96813 (808) 586-2722	Commissioner of Securities of the State of Hawaii
ILLINOIS	Office of Attorney General Franchise Division 500 South Second Street Springfield, IL 62706 (217) 782-4465	Illinois Attorney General; and CT Corporation System 208 LaSalle Street Chicago, IL 60604
INDIANA	Indiana Secretary of State Securities Division 302 West Washington St., Room E-111 Indianapolis, IN 46204 (317) 232-6681	Indiana Secretary of State 200 W. Washington Street, #201 Indianapolis, IN 46204; and CT Corporation System 251 East Ohio Street Indianapolis, IN 46204
MARYLAND	Office of the Attorney General Division of Securities 200 St. Paul Place Baltimore, MD 21202-2020 (410) 576-6360	Maryland Securities Commissioner 200 St. Paul Place Baltimore, MD 21202-2020; and The Corporation Trust Incorporated 32 South Street Baltimore, MD 21202
MICHIGAN	Michigan Department of Attorney General Consumer Protection Division Antitrust and Franchise Unit 670 Law Building Lansing, MI 48913 (517) 335-7567	Michigan Department of Commerce, Corporations and Securities Bureau
MINNESOTA	Minnesota Department of Commerce 85 7th Place East, Suite 280 St. Paul, MN 55101-2198 (651) 539-1600	Minnesota Commissioner of Commerce; and CT Corporation System 405 Second Avenue, South Minneapolis, MN 55401



State	State Agency	Agent for Service of Process
NEW YORK	New York State Department of Law Investor Protection Bureau 28 Libert Street, 21 st Floor New York, NY 10271 (212) 416-8222	Secretary of State State of New York 99 Washington Avenue Albany, NY 12231
NORTH DAKOTA	North Dakota Securities Department 600 East Boulevard, 5th Floor Bismarck, ND 58505-0510 (701) 328-4712	North Dakota Securities Commissioner; and CT Corporation System 314 East Thayer Avenue Bismarck, ND 58501
RHODE ISLAND	Department of Business Regulation Division of Securities 1511 Pontiac Avenue, Building 69-1 Cranston, RI 02920 (401) 462-9585	Director of Rhode Island Department of Business Regulation; and CT Corporation System 10 Weybosset Street Providence, RI 02903
SOUTH DAKOTA	Division of Insurance Securities Regulation 124 S. Euclid, Suite 104 Pierre SD 57501 (605) 773-3563	Director of South Dakota Divisions of Insurance Securities Regulation
VIRGINIA	State Corporation Commission Division of Securities and Retail Franchising 1300 East Main Street, 9th Floor Richmond, VA 23219 (804) 371-9051	Clerk of State Corporation Commission 1300 East Main Street, 1st Floor Richmond, VA 23219; and
WASHINGTON	Department of Financial Institutions Securities Division 150 Israel Rd SW Tumwater, WA 98501(360) 902-8760	Director, Dept. of Financial Institutions Securities Division; and CT Corporation System 520 Pike Street Seattle, WA 98101
WISCONSIN	Wisconsin Securities Commissioner Securities and Franchise Registration 345 W. Washington Avenue Madison, WI 53703 (608) 266-8559	Commissioner, Division of Securities, Department of Financial Institutions



Exhibit H

State Addenda

(see attached)

**EXHIBIT H TO THE
FRANCHISE DISCLOSURE DOCUMENT
STATE ADDENDA**

The Addenda in this Exhibit J are state specific changes to the Franchise Disclosure Document or Franchise Agreement for the states identified on each addendum. Each addendum applies only to the sale of franchises in the state identified.

ADDENDUM TO THE MRI FRANCHISE DISCLOSURE DOCUMENT
REQUIRED BY THE STATE OF CALIFORNIA

The registration of this franchise offering by the California Department of Financial Protection and Innovation does not constitute approval, recommendation, or endorsement by the Commissioner. THE CALIFORNIA FRANCHISE INVESTMENT LAW REQUIRES THAT A COPY OF ALL PROPOSED AGREEMENTS RELATING TO THE SALE OF THE FRANCHISE BE DELIVERED TOGETHER WITH THE DISCLOSURE DOCUMENT.

California Business and Professions Code Sections 20000 through 20043 provide rights to the member concerning termination, transfer, or non-renewal of a franchise. If the Franchise Agreement contains a provision that is inconsistent with the law, the law will control.

The franchise agreement provides for termination upon Bankruptcy. The provision may not be enforceable under federal Bankruptcy law (11 U.S.C.A. Sec. 101 *et seq.*).

The franchise agreement contains a covenant not to compete which extends beyond the termination of the franchise. This provision may not be enforceable under California law.

The franchise agreement requires application of the laws of the State of South Carolina. This provision may not be enforceable under California law.

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

Neither the franchisor, nor any person or franchise broker in Item 2 of the FDD is subject to any currently effective order of any national securities association or national securities exchange, as defined in the Securities Exchange Act of 1934, 15 U.S.C.A. 78a *et seq.*, suspending or expelling these persons from membership in the association or exchange.

Section 31125 of the Franchise Investment Law requires us to give you a Disclosure Document approved by the California Department of Financial Protection and Innovation before we ask you to consider a material modification of your Franchise Agreement 14 days prior to execution of agreement.

You must sign a General Release of Claims if you renew or transfer your franchise. California Corporations Code Section 31512 voids a waiver of your rights under the Franchise Investment Law (California Corporations Code Sections 31000 through 31516). Business and Professions Code Sections 20010 voids a waiver of your rights under the Franchise Relations Act (Business and Professions Code 20000 through 20043).

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.

OUR WEBSITE HAS NOT BEEN REVIEWED OR APPROVED BY THE CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION. ANY COMPLAINTS CONCERNING THE CONTENT OF THIS WEBSITE MAY BE DIRECTED TO THE CA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION at www.dfpi.ca.gov.

ADDENDUM TO THE MRI FRANCHISE DISCLOSURE DOCUMENT
REQUIRED BY THE STATE OF ILLINOIS

Illinois law governs the Franchise Agreement(s).

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 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 voided.

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 Illinois, the Private Employment Agency Act can be found at 225ILCS 515/1 (West 2018).

Section 17, Summary column for provisions (v) and (w) are amended to state (Subject to applicable state law).

MEMBER:

HQ MRI Corporation

By: _____

ADDENDUM TO THE MRI FRANCHISE AGREEMENT
REQUIRED BY THE STATE OF ILLINOIS

Illinois law governs the Franchise Agreement(s).

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 the State of Illinois is void. However, a franchise agreement may provide for arbitration to take place outside of Illinois.

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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 Illinois, the Private Employment Agency Act can be found at 225ILCS 515/1 (West 2018).

MEMBER:

HQ MRI Corporation

By: _____

ADDENDUM TO THE MRI FRANCHISE DISCLOSURE DOCUMENT
REQUIRED BY THE STATE OF INDIANA

The following additional information is added to Item 17:

Subsections (5) and (10) of Indiana Code Sec. 23-2-2.7-1 currently provides:

"It is unlawful for any franchise agreement entered into between any franchisor and a member who is either a resident of Indiana or a nonresident who will be operating a franchise in Indiana to contain any of the following provisions:

* * *

"(5) Requiring the member to prospectively assent to a release, assignment, novation, waiver, or estoppel which purports to relieve any person from liability to be imposed by this chapter or requiring any controversy between the member and the franchisor to be referred to any person if referral would be binding on the member. This subdivision does not apply to arbitration before an independent arbitrator.

* * *

"(10) Limiting litigation brought for breach of the agreement in any manner whatsoever."

According to current interpretations of the Securities Division of the Secretary of State of Indiana, Subsection 5 limits the right of Management Recruiters to require a general release and Subsection 10 requires the following:

- a. the Indiana Franchise Disclosure Law and the Indiana Franchise Deceptive Practices Law prevail, if they are in conflict with South Carolina law.
- b. Indiana members must be allowed the jurisdiction and venue of the Indiana courts.
- c. Indiana members shall not irrevocably accept and submit generally and unconditionally to the jurisdiction of the South Carolina courts or any courts outside of Indiana.
- d. any waiver of the member's rights to a defense based on jurisdiction, venue or forum non conveniens is unenforceable.
- e. Indiana members must be allowed to have arbitration proceedings held in an Indiana location.

ADDENDUM TO THE MRI FRANCHISE AGREEMENT
REQUIRED BY THE STATE OF INDIANA

The following is added to Section 28 of the Franchise Agreement, in place of any conflicting provisions:

28.2. The state in which the territory is located has the following provisions which may be applicable: Indiana Code, Title 23, Article 2, Chapter 2.7, Sections 1-3.

28.3. Notwithstanding anything to the contrary contained in this Agreement, Management Recruiters shall not open any offices in the territory if doing so would be contrary to the then valid and applicable requirements of Indiana Code, Sec. 23-2-2.7-1(2) or Sec. 23-2-2.7-2(4).

28.4. The provisions of this Agreement relating to the execution of releases shall be subject to the then valid and applicable requirements of Indiana Code, Sec. 23-2-2.7-1(5).

28.5. Subsections (5) and (10) of Indiana Code, Sec. 23-2-2.7-1 currently provide:

It is unlawful for any franchise agreement entered into between any franchisor and a member who is either a resident of Indiana or a nonresident who will be operating a franchise in Indiana to contain any of the following provisions:

* * *

(5) Requiring the member to prospectively assent to a release, assignment, novation, waiver, or estoppel which purports to relieve any person from liability to be imposed by this chapter or requiring any controversy between the member and the franchisor to be referred to any person, if referral would be binding on the member. This subdivision does not apply to arbitration before an independent arbitrator.

* * *

(10) Limiting litigation brought for breach of the agreement in any manner whatsoever.

28.6. According to current interpretations of the Securities Division of the Secretary of State of Indiana, Subsection 10 requires the Indiana Franchise Disclosure Law and the Indiana Franchise Deceptive Practices Law prevail, if they are in conflict with South Carolina law; that Indiana members shall not irrevocably accept and submit generally and unconditionally to the jurisdiction of the South Carolina courts or any courts outside of Indiana; that any waiver of the member's rights to a defense based on jurisdiction, venue or forum non conveniens is unenforceable; and that Indiana members must be allowed to have arbitration proceedings held in an Indiana location.

MEMBER:

HQ MRI Corporation

By: _____

ADDENDUM TO THE MRI FRANCHISE DISCLOSURE DOCUMENT
REQUIRED BY THE STATE OF MARYLAND

1. Regarding Item 17, any claims arising under the Maryland Franchise Registration and Disclosure Law must be brought within three (3) years after the grant of the franchise. Additionally, any general release required by the terms and conditions of the Franchise Agreement as a condition of renewal, assignment or transfer shall not apply to any liability under the Maryland Franchise Registration and Disclosure Law.
2. The representations you make in the Disclosure Document will not act as a release, estoppel or waiver of any liability incurred by us under the Maryland Franchise Registration and Disclosure Law.
3. Regarding Item 17, under certain circumstances, the Franchise Agreement requires you to submit to a court proceeding in the State of South Carolina. These provisions may run contrary to the Maryland Franchise Registration and Disclosure Law. Therefore, nothing will preclude you from being able to enter into litigation with us in Maryland, as long as the nature of the litigation is not the type of dispute, controversy, claim, action, or proceeding which would be subject to litigation under the Franchise Agreement.
4. Regarding Item 17's discussion of our right to terminate you upon your bankruptcy, this provision in the Franchise Agreement may not be enforceable under federal bankruptcy law (11 U.S.C. §101 *et. seq.*).
5. To the extent that any provisions of the Franchise Agreement require you to assent to any release, estoppel or waiver of liability as a condition to your purchasing a MRI franchise, such provisions are not intended to nor shall they act as a release, estoppel or waiver of any liability under the Maryland Franchise Registration and Disclosure Law.

ADDENDUM TO THE MRI FRANCHISE AGREEMENT
REQUIRED BY THE STATE OF MARYLAND

The following is added to Section 28 of the Franchise Agreement, in place of any conflicting provisions:

28.2. The state in which the franchise is located has the following provisions which may be applicable: Art. 56, Sec. 365C of the Annotated Code of Maryland currently provides that a franchisor may not require a prospective member to assent to a release which would relieve any person from liability under the Maryland Franchise Registration and Disclosure Law, as a condition to the sale of a franchise. The provisions of this Agreement relating to releases shall be subject to this Code Section, to the extent it is then valid and applicable to renewal, assignments, and transfers under this Agreement.

MEMBER:

HQ MRI Corporation

By: _____

ADDENDUM TO THE MRI FRANCHISE DISCLOSURE DOCUMENT
REQUIRED BY THE STATE OF MICHIGAN

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:

1. A prohibition on the right of a member to join an association of members.
2. A requirement that a member assent to a release, assignment, novation, waiver, or estoppel which deprives a member of rights and protections provided in this act. This shall not preclude a member, after entering into a Franchise Agreement, from settling any and all claims.
3. A provision that permits a franchisor to terminate a franchise prior to the expiration of its term except for good cause. Good cause will include the failure of the member to comply with any lawful provisions 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.
4. A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the member by repurchase or other means for the fair market value, at the time of expiration, of the member'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 Franchised 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 member 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 member does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.
5. A provision that permits the franchisor to refuse to renew a franchise on terms generally available to other members of the same class or type under similar circumstances. This section does not require a renewal provision.
6. A provision requiring that arbitration or litigation be conducted outside this state. This will not preclude the member from entering into an agreement, at the time of arbitration, to conduct arbitration at a location outside this state.
7. 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 will include, but is not limited to:
 - a. The failure of the proposed member to meet the franchisor's then current reasonable qualifications or standards.
 - b. The fact that the proposed transferee is a competitor of the franchisor or subfranchisor.

- c. The unwillingness of the proposed transferee to agree in writing to comply with all lawful obligations.
 - d. The failure of the member 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.
8. A provision that requires the member 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 member has breached the lawful provisions of the Franchise Agreement and has failed to cure the breach in the manner provided in subdivision (c).
9. A provision which permits the franchisor to directly or indirectly convey, assign, or otherwise transfer its obligations to fulfill contractual obligations to the member unless provision has been made for providing the required contractual services.

* * * *

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.

* * * *

If the franchisor's most recent financial statements are unaudited and show a net worth of less than \$100,000.00, the franchisor must, at the request of the member, arrange for the escrow of initial investment and other funds paid by the member until the obligations to provide real estate, improvements, equipment, inventory, training, or other items included in the franchise offering are fulfilled. At the option of the franchisor, a surety bond may be provided in place of escrow.

* * * *

The name and address of the franchisor's agent in this state authorized to receive service of process is: Michigan Department of Commerce, Corporation and Securities Bureau, 6546 Mercantile Way, P.O. Box 30222, Lansing, Michigan 48910.

Any questions regarding this notice should be directed to:
 Department of the Attorney General's Office Consumer Protection Division
 Attn: Franchise
 670 G. Mennen Williams Building
 Lansing, Michigan 48913

ADDENDUM TO THE MRI FRANCHISE DISCLOSURE DOCUMENT
REQUIRED BY THE STATE OF MINNESOTA

In recognition of the requirements of the Minnesota Franchises Law, Minn. Stat. §§ 80C.01 through 80C.22, and of the Rules and Regulations promulgated thereunder by the Minnesota Commissioner of Commerce, Minn. Rules §§ 2860.0100 through 2860.9930, the Uniform Franchise Disclosure Document for use in the State of Minnesota will be amended to include the following:

1. Item 13, "Trademarks," will be amended by the addition of the following paragraph at the end of the Item:

Pursuant to Minnesota Stat. Sec. 80C.12, Subd. 1(g), we are required to protect any rights which you have to use our proprietary marks.

2. Item 17, "Renewal, Termination, Transfer and Dispute Resolution," will be amended by the addition of the following paragraphs:

With respect to members governed by Minnesota law, we will comply with Minn. Stat. Sec. 80C.14, Subds. 3, 4, and 5 which require, except in certain specified cases, that a member 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.

Pursuant to Minnesota Statutes, Section 80C.17, Subd. 5, Limitation on actions. No action may be commenced pursuant to this section more than three years after the cause of action accrues.

Pursuant to Minn. Rule 2860.4400D, any general release of claims that you or a transferor may have against us or our shareholders, directors, employees and agents, including without limitation claims arising under federal, state, and local laws and regulations will exclude claims you or a transferor may have under the Minnesota Franchise Law and the Rules and Regulations promulgated thereunder by the Commissioner of Commerce.

Minnesota Statutes, Section 80C.21 and Minnesota Rule 2860.4400(J) prohibit the franchisor from requiring litigation to be conducted outside Minnesota, requiring waiver of a jury trial, or requiring the member to consent to liquidated damages, termination penalties or judgment notes. In addition, nothing in the Disclosure Document or agreement can abrogate or reduce any of the member's rights as provided for in Minnesota Statutes, Chapter 80C, or member's right to any procedure, forum, or remedies provided for by the laws of the jurisdiction. The member cannot consent to the franchisor obtaining injunctive relief. The franchisor may seek injunctive relief. It will be determined by a court if a bond is required.

3. Each provision of this addendum will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Minnesota Franchises Law or the Rules and Regulations promulgated thereunder by the Minnesota Commission of Commerce are met independently without reference to this addendum to the Disclosure Document.

ADDENDUM TO THE MRI FRANCHISE AGREEMENT
REQUIRED BY THE STATE OF MINNESOTA

The following is added to the Franchise Agreement, in place of any conflicting provisions:

16.2 As provided in Subsection 16.2, with respect to franchises governed by Minnesota law, Management Recruiters will comply with Minn. Stat. Sec. 80C.14, subds. 3, 4, and 5, which require, except in certain specified cases, that a member be given 90 days' notice of termination (with 60 days to cure) and 180 days' notice for non-renewal of the franchise agreement.

20.3. This Section shall not in any way abrogate or reduce any rights of the Member as provided for in Minnesota Statutes 1984, Chapter 80C, including the right to submit matters to the jurisdiction of the courts in Minnesota, except as otherwise provided by the Federal Arbitration Act, 9 U.S. Code, or other applicable law.

20.7 Minnesota Rule 2860.4400(j) requires that franchise agreements not require a member to waive his rights to a trial, provided that the Rule does not bar a voluntary arbitration of any matter if the proceeding is conducted by an independent tribunal under the rules of the American Arbitration Association. This Rule shall be applicable to Subsection 20.7. of this Agreement, except to the extent that the Rule is preempted by federal law or is otherwise invalid.

MEMBER:

HQ MRI Corporation

By: _____

**ADDENDUM TO THE MRI FRANCHISE DISCLOSURE DOCUMENT
REQUIRED BY THE DEPARTMENT OF LAW OF THE STATE OF NEW YORK**

1. The following information is added to the cover page of the Franchise Disclosure Document:

INFORMATION COMPARING FRANCHISORS IS AVAILABLE. CALL THE STATE ADMINISTRATORS LISTED IN EXHIBIT A OR YOUR PUBLIC LIBRARY FOR SERVICES OR INFORMATION. REGISTRATION OF THIS FRANCHISE BY NEW YORK STATE DOES NOT MEAN THAT NEW YORK STATE RECOMMENDS IT OR HAS VERIFIED THE INFORMATION IN THIS FRANCHISE DISCLOSURE DOCUMENT. IF YOU LEARN THAT ANYTHING IN THIS FRANCHISE DISCLOSURE DOCUMENT IS UNTRUE, CONTACT THE FEDERAL TRADE COMMISSION AND THE APPROPRIATE STATE OR PROVINCIAL AUTHORITY. 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 to be 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:

1. 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.
2. 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.
3. 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.
4. 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 Rev. March 17, 2021 2 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

**ADDENDUM TO THE MRI FRANCHISE AGREEMENT
REQUIRED BY THE DEPARTMENT OF LAW THE STATE OF NEW YORK**

THIS ADDENDUM TO THE FRANCHISE AGREEMENT FOR NEW YORK (“this Addendum”) is entered into by and between HQ MRI Corporation., Delaware corporation, with its principal office 111 Springhall Drive, Goose Creek, SC 29445 (“we,” “us” or “our”) and _____ (“you” or “your”), whose principal business address is _____.

WHEREAS, we and you have entered into a certain Franchise Agreement (the “Franchise Agreement”) dated _____, 23 (the “Effective Date”) and desire to amend certain terms of the Franchise Agreement in accordance with the terms and conditions contained in this Addendum.

WHEREAS, you are domiciled in New York and the MRINetwork franchise will be located in New York, and/or any of the offering or sales activity relating to the Franchise Agreement occurred in the State of New York.

NOW THEREFORE, we and you agree that the Franchise Agreement is hereby modified, as follows:

1. 1. In recognition of the requirements of the General Business Law of the State of New York, Article 33, §§ 680 through 695, (the “Act”) the Franchise Agreement for MRI is amended as follows:

This Addendum is intended to modify the Franchise Agreement. In the event of any conflict between a provision of the Franchise Agreement and this Addendum, the provision of this Addendum shall control. All terms which are capitalized in this Addendum and not otherwise defined, will have the meanings given to them in the Franchise Agreement. Except as amended by this Addendum, the Franchise Agreement is unmodified and in full force and effect in accordance with its terms.

The Member is required to sign a general release as a condition of renewal, termination and transfer of the franchise. Such release will exclude claims arising under the General Business Law of the State of New York.

Franchisor will not transfer and assign its rights and obligations under the Franchise Agreement unless the transferee will be able to perform the Franchisor’s obligations under the Franchise Agreement, in Franchisor’s good faith judgment, so long as it remains subject to the General Business Law of the State of New York.

Member will not be required to indemnify Franchisor for any liability imposed upon Franchisor as a result of Member’s reliance upon or use of procedures or products which were required by Franchisor, if such procedures or products were utilized by Member in the manner required by Franchisor.

The Franchise Agreement requires that the franchise be governed by the laws of the state where Franchisor’s principal business is then located. Such a requirement will not be considered a waiver of any right conferred upon either you or us by Article 33 of the General Business Law of the State of New York.

The Franchise Agreement requires that any claims or disputes arising out of the franchise relationship be submitted to alternative dispute resolution or filed in the state or federal court of general jurisdiction exclusively in the state where Franchisor's principal business is then located. Provisions in New York state law supersede this, allowing for lawsuits to be filed in New York.

2. Each provision of this Addendum will be effective only to the extent that the jurisdictional requirements of the Act are met independent of this Addendum. To the extent this Addendum will be deemed to be inconsistent with any terms or conditions of said Franchise Agreement or exhibits or attachments thereto, the terms of this Addendum will govern.

Miscellaneous. This Addendum and the Franchise Agreement as modified by this Addendum constitute the entire agreement of the parties with respect to their subject matter and may be amended only by a written agreement signed by both parties.

Counterpart Execution and Delivery by Facsimile. This Addendum may be executed in one or more counterparts, all of which shall, taken together, constitute one and the same agreement. The parties intend that delivery may be effected by facsimile transmission and that a facsimile copy which has been executed by the transmitting party shall constitute an original.

IN WITNESS THEREOF, the parties have executed this Addendum as of the Effective Date of the Franchise Agreement.

MEMBER:

HQ MRI Corporation

By: _____

ADDENDUM TO THE MRI FRANCHISE AGREEMENT
REQUIRED BY THE STATE OF NORTH DAKOTA

Pursuant to Section 51-19-09, N.D.C.C. and, notwithstanding anything to the contrary contained in the Franchise Agreement, any provisions that are in conflict with the following are hereby amended to the extent necessary to be in compliance with the North Dakota Century Code:

- A. Restrictive Covenants: All covenants restricting competition are subject to Section 9-08-06, N.D.C.C.
- B. No arbitration proceeding will occur at a location remote from the site of your franchised business.
- C. Member does not consent to the jurisdiction of any court outside North Dakota for matters arising from the franchise agreement.
- D. Member is not subject to any liquidated damages or termination penalties.
- E. The Franchise Agreement is governed by the laws of North Dakota.
- F. The Member does not consent to waive trial by jury.
- G. The Member does not consent to waive exemplary and punitive damages.
- H. Member is not required to sign a general release upon renewal of the franchise agreement.
- I. Member does not consent to a limitation of claims. The statute of limitations under North Dakota law applies to all claims.
- J. Member is not required to pay all costs and expenses incurred by MRI to enforce the Franchise Agreement. The prevailing party in any enforcement action is entitled to recover all costs and expenses including attorney's fees.

MEMBER:

HQ MRI Corporation

By: _____

ADDENDUM TO THE MRI FRANCHISE AGREEMENT
REQUIRED BY THE STATE OF OHIO

In recognition of the requirements of the Ohio Revised Code, Title XIII, Chapter 1334: Business Opportunity Plans, the parties to the attached Franchise Agreement (the "Agreement") agree as follows:

1. In the event that MRI does not comply in all material respects with the trade regulations of the federal trade commission, "disclosure requirements and prohibitions concerning franchising," 16 C.F.R. 436.1, *et seq.*; as may be amended from time to time, that is in effect on the date of the transaction, Articles 20.3 and 20.4 of the Agreement, under the heading "Venue and Choice of Law" will be supplemented by the addition of the following:

"A provision in a Franchise Agreement restricting jurisdiction or venue to a forum outside the state of Ohio or requiring the application of the laws of another state is void with respect to a claim otherwise enforceable under this Act."

2. This amendment will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Ohio Business Opportunity Plan, are met independently without reference to this amendment.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Ohio amendment to the Franchise Agreement on the same date as the Franchise Agreement was executed.

MEMBER:

HQ MRI Corporation

By: _____

ADDENDUM TO THE MRI FRANCHISE DISCLOSURE DOCUMENT
REQUIRED BY THE STATE OF RHODE ISLAND

In recognition of the requirements of the Rhode Island Franchise Investment Act, §§ 19-28.1-1 through 19-28.1-34 the Uniform Franchise Disclosure Document for use in the State of Rhode Island will be amended to include the following:

1. Item 17, "Renewal, Termination, Transfer and Dispute Resolution," will be amended by the addition of the following:

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

This addendum to the Disclosure Document will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Rhode Island Franchise Investment Act, §§ 19-28.1-1 through 19-28.1-34, are met independently without reference to this addendum to the Disclosure Document.

**ADDENDUM TO THE MRI FRANCHISE AGREEMENT
REQUIRED BY THE STATE OF RHODE ISLAND**

In recognition of the requirements of the Rhode Island Franchise Investment Act, §§ 19-28.1-1 through 19-28.1-34, the parties to the attached Franchise Agreement (the "Agreement") agree as follows:

The following is added to Section 20.3 of the Franchise Agreement, in place of any conflicting provisions:

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

This amendment will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Rhode Island Franchise Investment Act, §§ 19-28.1-1 through 19-28.1-34, are met independently without reference to this amendment.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Rhode Island amendment to the Franchise Agreement on the same date as the Franchise Agreement was executed.

MEMBER:

HQ MRI Corporation

By: _____
Nancy Halverson, SVP

ADDENDUM TO THE MRI FRANCHISE DISCLOSURE DOCUMENT
REQUIRED BY THE COMMONWEALTH OF VIRGINIA

In recognition of the Section 13.1-564 of the Virginia Retail Franchising Act, the Franchise Disclosure Document for use in the Commonwealth of Virginia will be amended as follows:

Additional Disclosure: the following statements are added to Item 17.h

Pursuant to 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 franchise agreement does not constitute "reasonable cause," as that term may be defined in the Virginia Retail Franchising Act or the laws of Virginia, that provision may not be enforceable.

ADDENDUM TO THE MRI DISCLOSURE DOCUMENT
REQUIRED BY THE STATE OF WASHINGTON

In recognition of the requirements of the Washington Franchise Investment Protection Act, Wash. Rev. Code §§ 19.100.180, the Uniform Franchise Disclosure Document in connection with the offer and sale of franchises for use in the State of Washington will be amended to include the following:

Item 17 (d) is amended to add: franchisees may terminate the franchise agreement under any grounds permitted by state law.

Item 17 (q) and (r) are amended to add: noncompetition provisions are subject to state law.

Item 17 (u) is amended to state: this provision is subject to state law.

Item 17, "Renewal, Termination, Transfer and Dispute Resolution," will be amended by the addition of the following paragraphs at the conclusion of the Item:

The state of Washington has a statute, RCW 19.100.180, which may supersede the Franchise Agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the Franchise Agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.

In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the franchise agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of the franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.

In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW will prevail.

A release or waiver of rights executed by a franchisee may not include rights under the Washington Franchise Investment Protection Act or any rule or order thereunder except when executed pursuant to a negotiated settlement after the agreement is in effect and where independent counsel represents the parties. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable.

Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.

Each provision of this addendum to the Disclosure Document will be effective only to the extent, with respect to such provision, that the jurisdictional requirements of the Washington Franchise Investment Protection Act, Wash. Rev. Code §§ 19.100.180, are met independently without reference to this addendum to the Disclosure Document.

Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under

RCW 49.62.030 unless the independent contractor's earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.

RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.

ADDENDUM TO THE MRI FRANCHISE
AGREEMENT REQUIRED BY THE STATE OF
WASHINGTON

The state of Washington has a statute, RCW 19.100.180, which may supersede the franchise agreement and related agreements (the "Franchise Agreement") in your relationship with the franchisor including the areas of termination and renewal of your franchise. There may also be court decisions which may supersede the Franchise Agreement in your relationship with the franchisor including the areas of termination and renewal of your franchise.

In any arbitration or mediation involving a franchise purchased in Washington, the arbitration or mediation site will be either in the state of Washington, or in a place mutually agreed upon at the time of the arbitration or mediation, or as determined by the arbitrator or mediator at the time of arbitration or mediation. In addition, if litigation is not precluded by the franchise agreement, a franchisee may bring an action or proceeding arising out of or in connection with the sale of the franchises, or a violation of the Washington Franchise Investment Protection Act, in Washington.

In the event of a conflict of laws, the provisions of the Washington Franchise Investment Protection Act, Chapter 19.100 RCW will prevail.

A release or waiver of rights executed by a franchisee may not include rights under the Washington Franchise Investment Protection Act or any rule or order thereunder except when executed pursuant to a negotiated settlement after the agreement is in effect and where independent counsel represents the parties. Provisions such as those which unreasonably restrict or limit the statute of limitations period for claims under the Act, rights or remedies under the Act such as a right to a jury trial may not be enforceable.

Pursuant to RCW 49.62.020, a noncompetition covenant is void and unenforceable against an employee, including an employee of a franchisee, unless the employee's earnings from the party seeking enforcement, when annualized, exceed \$100,000 per year (an amount that will be adjusted annually for inflation). In addition, a noncompetition covenant is void and unenforceable against an independent contractor of a franchisee under RCW 49.62.030 unless the independent contractor's earnings from the party seeking enforcement, when annualized, exceed \$250,000 per year (an amount that will be adjusted annually for inflation). As a result, any provisions contained in the franchise agreement or elsewhere that conflict with these limitations are void and unenforceable in Washington.

RCW 49.62.060 prohibits a franchisor from restricting, restraining, or prohibiting a franchisee from (i) soliciting or hiring any employee of a franchisee of the same franchisor or (ii) soliciting or hiring any employee of the franchisor. As a result, any such provisions contained in the franchise agreement or elsewhere are void and unenforceable in Washington.

Transfer fees are collectable to the extent that they reflect the franchisor's reasonable estimated or actual costs in effecting a transfer.

The undersigned does hereby acknowledge receipt of this addendum.

MEMBER:

HQ MRI Corporation

By: _____

Nancy Halverson, SVP
MRI



Exhibit I

State Effective Dates

(see attached)

EXHIBIT I TO THE FRANCHISE DISCLOSURE DOCUMENT

STATE EFFECTIVE DATES

State Effective Dates

The following states have franchise laws that 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.

This document is effective and may be used in the following states, where the document is filed, registered or exempt from registration, as of the Effective Date stated below:

State	Effective Date
California	PENDING
Hawaii	PENDING
Illinois	PENDING
Indiana	PENDING
Maryland	PENDING
Michigan	PENDING
Minnesota	PENDING
New York	PENDING
North Dakota	PENDING
Rhode Island	PENDING
South Dakota	PENDING
Virginia	PENDING
Washington	PENDING
Wisconsin	PENDING

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.



Exhibit J

Receipts

(see attached)

**EXHIBIT J TO THE
FRANCHISE DISCLOSURE DOCUMENT**

RECEIPTS

RECEIPT

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If MRI 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, the franchisor or an affiliate in connection with the proposed franchise sale. New York law requires a franchisor to provide the Franchise Disclosure Document at the earliest 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 MRI 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 and state law may have occurred and should be reported to the Federal Trade Commission, Washington, DC 20580 and to your state authority listed on Exhibit I.

The name of the Franchisor HQ MRI CORPORATION, 111 Springhall Drive, Goose Creek, SC 29445, (843)723-7400. The franchise seller for this offering is _____
111 Springhall Drive, Goose Creek, SC 29445, (843)723-7400.

Issuance Date: May 16, 2024

Management Recruiters International, Inc. authorized the respective state agencies identified in Exhibit I to receive service of process for it in the particular state.

I received a Disclosure Document dated May 16, 2024 that included the following Exhibits: EXHIBIT

- A: Management Recruiters Franchise Agreement and Exhibits

- EXHIBIT B: Operations Materials Table of Contents
- EXHIBIT C1: MRI Outlets as of December 31, 2023
- EXHIBIT C2: Former MRI Outlets for the period January 1, 2023 through December 31, 2023
- EXHIBIT D: MRINetwork Code of Conduct
- EXHIBIT E: Sample Release Language
- EXHIBIT F: Financial Statements
- EXHIBIT G: Agents for Service of Process
- EXHIBIT H: State Addenda
- EXHIBIT I: State Effective Dates
- EXHIBIT J: Receipts

DATE RECEIVED: _____

(Signature of recipient)

(Printed name of recipient)

Legal residence address

Please return signed receipt to:
HQ MRI Corporation, 111 Springhall Drive, Goose Creek, SC 29445; Kelly Evans, ktevans@hirequest.com

RECEIPT

This disclosure document summarizes certain provisions of the franchise agreement and other information in plain language. Read this disclosure document and all agreements carefully.

If MRI 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, the franchisor or an affiliate in connection with the proposed franchise sale. New York law requires a franchisor to provide the Franchise Disclosure Document at the earliest 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.

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The name of the Franchisor is HQ MRI Corporation, 111 Springhall Drive, Goose Creek, SC 29445, (843)723-7400 Ex. 1010. The franchise seller for this offering is _____,
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DATE RECEIVED: _____

(Signature of recipient)

(Printed name of recipient)

Legal residence address

Please return signed receipt to:

HQ MRI Corporation, 111 Springhall Drive, Goose Creek, SC 29445, Kelly Evans, ktevans@hirequest.com

KEEP FOR YOUR RECORDS