

FRANCHISE DISCLOSURE DOCUMENT



HQ MRI Corporation
A Delaware Corporation
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Goose Creek, SC 29445
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www.mrinetwork.com
www.mrifranchise.com

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”) traditional 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.

Issuance Date: April 18, 2023

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.

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.

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LIST OF EXHIBITS

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| EXHIBIT A: | Management Recruiters Franchise Agreement and Exhibits, Promissory Note, and Security Agreement |
| EXHIBIT B: | Operations Manual 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). HQ MRI Corporation is a wholly owned subsidiary of HireQuest, Inc. (NASDAQ: HQI). Our affiliate, Hire Quest, LLC, began offering staffing franchises under the name Acrux 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 ("MRI")(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. 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 name, "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"). We do not own or operate any business of the type you will be operating.

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.

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 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 "Merger"). The assets of Command Center, Inc. and Hire Quest, L.L.C. and their related entities were combined in an all-stock transaction. The management of the merged company changed the name of the merged, publicly- traded entity to "HireQuest, Inc." in the weeks following the Merger date. 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.

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.

On December 7, 2021, our parent corporation, HireQuest, Inc., closed an acquisition of the Dental Power Staffing (“DPS”) division of Dental Power (www.dentalpower.com), a 46-year-old dental staffing company headquartered in Carrboro, North Carolina. DPS is a leading provider of temporary, long-term contract, and direct-hire staffing services to private sector dental practices across the United States.

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 also offers franchises to Established Firms who have operated a franchised business-like business under a separate franchise disclosure document.

Market and Competition

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

The market for staffing and recruiting businesses is well developed and highly competitive throughout the United States. You will compete with both independent operators of similar businesses, some of whom belong to cooperative networks of offices, franchisees of other recruitment systems, 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), and the Americans with Disabilities Act (ADA) 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 2010 (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, 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 prohibits companies in our industry from knowingly referring an illegal alien for employment in the United States.

The Federal Fair Credit Reporting Act 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.

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 2002-2019.

Chief Financial Officer: David Burnett

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

Chief Accounting Officer: Cory Smith

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

Chief Information Officer: Joey Gianzanti

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

Vice President of Operations: Dave Gerstner

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

Nancy Halverson, Senior Vice President, MRI

As of the December 12, 2022 acquisition, Ms. Halverson became the Senior 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.

Tim Ozier, Senior Director, MRI Contract Staffing Sales

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.

Beth Turner, Senior Director, MRI Vendor Management

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.

Paul Christian, MRI VP of Technology

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.

Patrick Rozmus, MRI Director of Franchise Sales

Mr. Rozmus joined Management Recruiters International, Inc. in August 2022 as the Director of Franchise Sales in Delray Beach, Florida and continues to hold that position with 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.

Amy E. Johnston, Hire Quest Director of Franchise Sales

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

ITEM 3: LITIGATION

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

Pending Actions

None

Concluded Actions

Predecessor Franchisor, Management Recruiters International, Inc., was a party to the following concluded legal actions:

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 the violation of the franchise agreement and promissory note, 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”), a member 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.

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. 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 the purchase is as a result of a Transfer, 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 payments are fully earned by us and is due and payable 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 |
|--|---|---|---|
| Traditional Franchise Royalty Fee ^{1,2} | The royalty fee is: 9% on the first 500,000 of Net Cash-In; 7% on Net Cash-In from \$500,001 to \$1,000,000; 5% on Net Cash-In from \$1,000,001 to \$2,000,000; and 3% on Net Cash-In that exceeds \$2,000,000. | Payable no later than the 5 th of the following month. | Net Cash-In means all revenue from the franchised business, less refunds and fees paid to other personnel placement firms and sales tax. |
| Minimum Annual Royalty | \$12,000 | Beginning on the third 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 Fund Fee ² | 0.5% of Net Cash-In | Same as Royalty Fee | Same as above. |
| Additional Optional Training Fees ³ | Varies | Prior to provision of services | Payable upon registration |
| 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. |
| Audit | Cost of Audit ⁴ | Upon Demand | Payable only if the audit reveals underreporting. |
| Annual Owners' Meeting ⁵ | Varies | When enrolled | The meeting is mandatory. The registration fee will be assessed if you don't |

| Type of fee | Amount | Date Due | Remarks |
|--------------------------|--|-------------|--|
| | | | attend. The fee will be reasonably related to the cost of attendance at the annual meeting. |
| 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. |
| Insufficient Funds Fee | \$50 per occurrence or an amount equal to what we are charged by the bank, whichever is greater. | As incurred | If a check or electronic funds transfer from your bank account is denied for insufficient funds, for each occurrence we may charge this fee. |
| Late Fee | \$50 per week | As incurred | If any monthly report is not received, the late fee will be charged for each week the report is not received. |
| 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. |

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. The minimum annual royalty of \$40,000 begins on the first day of the third full calendar year after the effective date 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, 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.

2. You will pay the Royalty and Marketing and Public Relations Fund fees via Automated Clearing House (“ACH”) electronic transfer. You are required to maintain a bank account dedicated to your franchised business

from which payment to us will be drawn. You must report placement activity to our Accounting Department each month no later than the 5th day of the following the month. We will initiate an electronic funds transfer from your account to ours monthly following receipt of your monthly Net Cash-In report. If you fail to report by the 5th day of the month, we may collect an Estimated Royalty based on 120% of the last Royalty and last MFPR fee paid. If you have not made a Royalty payment, we may estimate your Royalty at \$1,000.00. If your late report reveals that an adjustment must be made, it will be made in the following month, and a credit will be applied to your amounts owed. If you are required to pay a refund to a client that was more than the cash you received, you must inform us of the amount and we will apply a credit to your account which will be applied to subsequent amounts owed to us. No cash refunds will be made to you. We will only use the ACH system to transfer from your account amounts you owe us.

3. 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.

4. 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.

5. 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.

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 | Lump sum payment | At signing of the Franchise Agreement | 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 |

| Type of expenditure | Amount* | Method of payment | When due | To whom payment is to be made |
|---|---------------------|-------------------|--------------------|--|
| 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. The initial franchise fee is fully earned and nonrefundable.
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.

MRI Contract Staffing is the only supplier of contract staffing services. You are required to enter into a Contract Staffing Agreement with HQ MRI Corporation which is attached to the Franchise Agreement, if you choose to offer contract staffing services. You are not required to offer contract staffing services, however, if you choose to offer contract staffing services, you may only do so through MRI Contract Staffing. MRI Contract Staffing, LLC (the entity that serviced MRI Contract Staffing prior to the 2022 HQ MRI Acquisition) derived \$49,178,901 in net revenue through sales of its services to MRI members in 2022.

Other than as described above, no franchisor officer owns an interest in any supplier.

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 each occurrence and \$2,000,000 annual aggregate; Business Automobile Liability including bodily injury and property damage liability for owned, leased, non-owned, and hired autos used in the Franchised Business in the amount of \$1,000,000 each accident; Worker’s Compensation with the statutory minimum limits set by applicable law, unless the laws of your state do not require this coverage for sole proprietors and Employer’s Liability in the amount of \$500,000 or statutory minimum limits if you have employees, whichever is greater; Property including “all-risk” coverage on all real and personal property owned, leased or rented by you as well as business income and extra expense coverage. This insurance shall be written for the replacement cost of your 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 per claim and annual aggregate; Employment Practices Liability in the amount of \$1,000,000 per claim and annual aggregate; Commercial Blanket Employee Dishonesty Bond, including coverage for any ERISA plans in the amount of \$100,000 or 10% of the ERISA plan assets, whichever is greater, if you have employees; License Bond, if required by applicable law; Unemployment Compensation with the statutory minimum limits set by applicable law unless the state law in your 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 MRI 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 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 "Operating Materials." Changes to our operating procedures can be modified in our sole discretion from time to time, and such modifications are published in our Operating 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 2021 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% (highrange) of your costs to establish your Franchised Business. 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.

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: MEMBER'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.

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| 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 18 | None |
| q. Owner's participation/management/staffing | Section 9 | Item 15 |
| r. Records and reports | Section 6 | Item 6 |
| s. Inspections and audits | Section 6 | Items 6 and 11 |
| t. Transfer | Section 13 | Item 17 |
| u. Renewal | Section 14 | Item 17 |
| v. Post-termination obligations | Section 17 | Items 11, 17 |
| w. Non-competition covenants | Section 15 | Items 11, 17 |
| x. Dispute resolution | Sections 20 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 Franchised 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 part of the initial franchise fee, required deposits, fixed assets and/or the first months of operations in which you will likely have more expenses than revenues.

Eligibility Requirements. To apply for a loan, you must submit an application to the 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 2022, the Prime Rate fluctuated. As of December 15, 2022, 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 in 2020 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. We presently do not sell or assign franchisee loans to others, nor have we done so in the past. We reserve the right to change this policy in the future, but we have no present plans to do so.

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

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

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

Except as listed below, MRI is not required to provide you with any assistance.

1. Pre-Opening Obligations

1. Advise you when securing suitable office space. You will lease your office from an independent third party. You are required to establish an office in commercial space and commence business under the Franchise Agreement within six (6) months of the completion of initial classroom training. (Franchise Agreement Section 4);
2. Assist you in the design of the layout of your office (Franchise Agreement Section 4);
3. Advise you about the selection of furniture, office equipment for your office, and high-speed Internet connection, which is essential to the Hosted IT (Hosted Information Technology) and Communication services. You will be provided this information before or during our instruction program (Franchise Agreement Section 4);
4. Provide you with on-line access to materials (Franchise Agreement Section 7);
5. Provide access to the Operating Materials (Franchise Agreement Section 8);
6. Provide access to MRI's Suite of Applications which includes MRI's communication and collaboration platform, The PATH[®] training platform, Central Directory, PTWeb, and such other applications which we may determine, in our discretion (Franchise Agreement Section 7);
7. Provide our New Office Training program (Franchise Agreement Section 8);
8. Provide you an MRINetwork WordPress Website template for your use in the operation of your Franchised Business. Provide hosting for the website for one (1) year. Provide an annual website

consultation. (Franchise Agreement Section 7)

As an MRINetwork member in good standing, you may purchase hardware, software and subscriptions at prices provided to all MRINetwork members.

2. 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.

3. Obligations after Opening

1. Access to our online Operating Materials. (Franchise Agreement Section 7)
2. Best Practice recommendations and support for your staffing and recruiting software. (Franchise Agreement Section 7)
3. Participation in our metrics and goal tracking application. This feature aggregates metric activities and placement data and generates reports that compare your metrics to your personal targets and to those of the MRINetwork. (Franchise Agreement Section 7)
4. Provide access to our MRINetwork vendor partners and the discounted pricing for products and services we have negotiated, which are subject to change. (Franchise Agreement Section 7)
5. Provide ongoing advice to you through meetings, seminars, courses, and communications as we deem appropriate and necessary for the operation of your Franchised Business. We offer one owner's event in the fall of each year that you are required to attend. (Franchise Agreement Section 7)
6. Administration of the Marketing and Public Relations Fund. (Franchise Agreement Section 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.

4. Advertising

Marketing and Public Relations (Franchise Agreement Section 7)

You are required to contribute 0.5% of your monthly Net Cash-In 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 2022, Marketing and Public Relations fund expenditures were as follows: Technology 2.3%, Print 0.8%, Video 9.9%, Creative 4.5% Public Relations 1.2%, Meetings and Events 43.2%, In-house marketing department overhead 30.7%, and Job Boards 7.4%.

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.

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.

5. Computer Systems

You must maintain a computer with management software and hardware sufficient for the effective operation of the Franchised Business. An appropriate system would include a business-class computer system capable of Internet access and be able to run word-processing and spreadsheet applications. Typically, new systems available from major retail stores capable of running the latest version of Windows or MAC would suffice. The types of data stored on such systems would include emails, pdfs, word processing, and spreadsheet documents related to customers, candidates, and general business reports and documents related to your business operations. You shall maintain an electronic mail account. You are required to read all electronic mail related to the Franchised Business on a daily basis and shall accept and acknowledge receipt of all electronic mail

sent by MRI. MRI does not have independent access to the information generated and stored in the computer systems. The estimated costs of a new laptop computer can range between \$900 to \$3,000 depending on the type of laptop purchased. Leased laptops can range from \$40 per month to \$55 per month depending on the type of laptop you choose.

6. Table of Contents of the Operations Materials

MRI does not have a traditional Operations 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.

7. Training

TRAINING PROGRAM

| Subject | Hours of Classroom Training | Hours of On-The-Job Training | Location |
|--|------------------------------------|-------------------------------------|-----------------|
| MRINetwork Overview and MRINetwork Way Methodology | 1.5 | n/a | Virtual |
| Discipline, Industry, Geography (DIG) development | 4 | n/a | Virtual |
| Right-fit solutions and workflow process | 2 | n/a | Virtual |
| Talent overview & recruitment techniques | 9.5 | n/a | Virtual |
| Client overview & business development techniques | 11 | n/a | Virtual |
| Placement Process | 2 | n/a | Virtual |
| Role Play Labs | 26 | | |
| Coaching Calls | 13 | | |
| Morning Meeting Calls | 13 | | |
| Total | 80 | 0 | |

New Office Training will take place over a six-week period except for the role play labs, coaching calls, and morning meeting calls. Role play labs will occur one hour per week for six months, coaching calls and morning meeting calls will each occur for thirty minutes per week for six months.

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 one year; 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 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, meet the standards for the PaceSetter Conference attendance at least once, and obtain sufficient score on the applicable examination. In order to maintain the Certification, you must: achieve PaceSetter Status once in a three-year period; 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.

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 to make sales of products or services in any territory 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.

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


1. 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:

| Description/Title | Trademark Image | Jurisdiction | Registration Number | Registration Date |
|-------------------|---|---------------|---------------------|-------------------|
| SEARCHPATH | | United States | 3245499 | May 22, 2007 |
| SEARCHPATH |  | United States | 6578790 | December 7, 2021 |
| SearchPath | | Canada | 1,133,356 | July 6, 2022 |

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.

1. 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.

2. 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.

3. 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.

4. 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 |

| Mark | Registration No. | Registration Date |
|--|------------------|--|
| 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.

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 trade secrets, including, but not limited to, 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 Operations Manual; 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. 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.

If you enter the Franchise Agreement as an entity and not an individual, any shareholder of 50% or more in the entity, or 10% if no single individual holds a 50% or greater share, 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.

Contract Staffing. You are not required to offer contract staffing services. If you do, you may only conduct temporary staffing activities as "MRI Contract Staffing." We encourage you to develop temporary staffing as part of your permanent placement business.

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.

| | | |
|--|--------------|--|
| a. Length of the Franchise Term | Section 3 | 10 years including any partial year, if any, in which the Franchise Agreement begins. |
| b. Renewal or extension of the term | Section 14 | 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. |
| c. Requirements for you to renew or extend | Section 14 | 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. |
| d. Termination by you | Section 16.5 | 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. |

| | | | |
|----|---|---------------|--|
| e. | Termination by us without cause | None | N/A |
| f. | Termination by us with cause | Section 16 | Violation of any confidentiality provision; bankruptcy; failure to pay sums you owe us; breach of Franchise Agreement. |
| g. | "Cause" defined – defaults which can be cured | Section 16 | 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. |
| h. | "Cause" defined – non-curable | Section 16 | Defaults of obligations under the franchise agreement as defined in Sections 16.2.1 including insolvency, bankruptcy, and assignment to creditors; and in Section 16.2.2 including failure to attend training and open business, falsifying reports, abandonment, understating net cash-in, unapproved relocation or transfer, misrepresentation, conviction or nolo contendere plea for felony or misdemeanor that MRI determines is damaging to the goodwill of the system, refusal to permit inspection and audit, unauthorized use of the trademarks, failure to comply with covenants in the agreement, multiple defaults of the agreement, termination of any other agreements with MRI or its affiliates. |
| i. | Your obligations on termination/non-renewal | Section 5, 17 | Cease using trademarks, deidentify, cancel assumed name registrations, pay all sums owed within 5 days, including remaining minimum annual royalty payments due through the end of the Franchise Agreement term unless otherwise waived, pay damages and expenses for enforcement of the post- |
| | | | termination obligations, cease use of domain names and URLs, destroy all tangible copies of materials and delete all electronic copies of materials. |

| | | | |
|----|--|------------|--|
| j. | Assignment of contract by us | Section 13 | We may assign our obligations under the franchise agreement. |
| k. | "Transfer" by you - definition | Section 13 | Includes sale or other transfer of Franchise Agreement, Franchise Business, assets you own or use in the operation of the Franchise Business, or any interest the Franchise Agreement grants you. |
| l. | Our approval of transfer by you | Section 13 | We have the right to approve or disapprove all transfers. |
| m. | Conditions for our approval of transfer | Section 13 | Includes our approval of new franchisee, your payment of a \$5,000 transfer fee to us, new franchisee assumes all of your obligations under the Franchise Agreement and completes training program, and new franchisee executes new Franchise Agreement including any personal guarantees. |
| n. | Our right of first refusal to acquire your business | Section 13 | We can match any offer. |
| o. | Our option to purchase your business | N/A | N/A |
| p. | Your death or permanent disability | Section 13 | Your beneficiaries may continue operation of the Franchise Business for a period of 180 days following your death or disability, provided they maintain all standards and obligations under the Franchise Agreement. After this 180- day period, your beneficiaries must, in order to continue operation of the Franchise Business, satisfy all qualifications then in effect for a purchaser of a Franchise Business, or be required to sell its ownership interest in the Franchise Business to a qualified purchaser. |
| q. | Non-competition covenants during the term of the franchise | Section 15 | Includes prohibition against owning or operating a business that provides similar service within the staffing placement industry. "Staffing placement industry" are businesses operated under NAICS codes 561311 (Employment Placement Agencies), 561312 (Executive Search Services), and/or 561320 (Temporary Help Services). |

| | | |
|---|------------|---|
| r. Non-competition covenants after the franchise is terminated or expires | Section 15 | No association of any kind with a competing staffing placement industry business for 24 months after the date of termination or expiration for any reason within 50 miles of any MRI franchised location. |
|---|------------|---|

| | | | |
|----|---|------------|---|
| s. | Modification of the agreement | Section 23 | Must be in writing and signed by both parties. |
| t. | Integration/merger clause | Section 23 | The franchise agreement is the entire agreement between the parties. |
| u. | Dispute resolution by mediation and/or litigation | Section 20 | 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. |
| v. | Choice of forum | Section 22 | Berkeley County, South Carolina (subject to applicable state law). |
| w. | 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 FTC's Franchise Rule permits a franchisor to provide information about the actual or potential financial performance of its franchised and/or franchisor-owned outlets, if there is a reasonable basis for the information, and if the information is included in the disclosure document. Financial performance information that differs from that included in Item 19 may be given only if: (1) the franchisor provides the actual records of an existing outlet you are considering buying; or (2) a franchisor supplements the information provided in this Item 19, for example, by providing information about possible performance at a particular location or under particular circumstances.

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

2021 Executive Search Placement Information

(207 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 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 |

2021 Contract Staffing Placement Information

(81 participating 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)

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 |

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.

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ITEM 20: OUTLETS AND FRANCHISEE INFORMATION

Table No. 1
Systemwide Outlet Summary
For years 2020, 2021, 2022¹

| Outlet Type | Year | Outlets at the Start of the Year | Outlets at the End of the Year | Net Change |
|--------------------|------|----------------------------------|--------------------------------|------------|
| Franchised Outlets | 2020 | 297 | 265 | -32 |
| | 2021 | 265 | 248 | -17 |
| | 2022 | 248 | 205 | -43 |
| Company Owned | 2020 | 0 | 0 | 0 |
| | 2021 | 0 | 0 | 0 |
| | 2022 | 0 | 0 | 0 |
| | 2020 | 297 | 265 | -32 |
| | 2021 | 265 | 248 | -17 |
| | 2022 | 248 | 205 | -43 |

Table No. 2
Transfers of Outlets from Franchisees to New Owners (other than the Franchisor)
For years 2020, 2021, 2022

| State | Year | Number of Transfers |
|----------------|------|---------------------|
| Florida | 2020 | 1 |
| | 2021 | 0 |
| | 2022 | 0 |
| Missouri | 2020 | 0 |
| | 2021 | 0 |
| | 2022 | 1 |
| New Jersey | 2020 | 0 |
| | 2021 | 1 |
| | 2022 | 0 |
| North Carolina | 2019 | 0 |
| | 2021 | 1 |
| | 2022 | 0 |
| Texas | 2020 | 1 |
| | 2021 | 0 |
| | 2022 | 0 |
| Tennessee | 2020 | 0 |
| | 2021 | 0 |
| | 2022 | 1 |
| | 2020 | 2 |

¹ HQ MRI Corporation acquired the franchise agreements represented in Item 20 pursuant to the 2012 HQ MRI Acquisition described in Item 1 on December 12, 2022.

| | | |
|-------|------|---|
| Total | 2021 | 2 |
| | 2022 | 2 |

Table No. 3
Status of Franchised Outlets
For years 2020, 2021, 2022

| 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 | 2020 | 2 | 0 | 1 | 0 | 0 | 0 | 1 |
| Alabama | 2021 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Alabama | 2022 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Alaska | 2020 | 4 | 0 | 0 | 0 | 0 | 3 | 1 |
| Alaska | 2021 | 1 | 0 | 0 | 0 | 0 | 1 | 0 |
| Alaska | 2022 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Arizona | 2020 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| Arizona | 2021 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| Arizona | 2022 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| Arkansas | 2020 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| Arkansas | 2021 | 2 | 0 | 0 | 1 | 0 | 0 | 1 |
| Arkansas | 2022 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| California | 2020 | 21 | 0 | 0 | 1 | 0 | 2 | 18 |
| California | 2021 | 18 | 0 | 0 | 0 | 0 | 0 | 18 |
| California | 2022 | 18 | 0 | 1 | 0 | 0 | 3 | 14 |
| Colorado | 2020 | 6 | 0 | 1 | 0 | 0 | 1 | 4 |
| Colorado | 2021 | 4 | 0 | 0 | 0 | 0 | 0 | 4 |
| Colorado | 2022 | 4 | 0 | 0 | 1 | 0 | 0 | 3 |
| Connecticut | 2020 | 2 | 0 | 0 | 1 | 0 | 0 | 1 |
| Connecticut | 2021 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Connecticut | 2022 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Delaware | 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Delaware | 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Delaware | 2022 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Florida | 2020 | 29 | 1 | 1 | 0 | 0 | 1 | 28 |
| Florida | 2021 | 28 | 0 | 0 | 0 | 0 | 3 | 25 |
| Florida | 2022 | 25 | 1 | 0 | 1 | 0 | 3 | 22 |
| Georgia | 2020 | 9 | 0 | 0 | 0 | 0 | 0 | 9 |
| Georgia | 2021 | 9 | 0 | 0 | 0 | 0 | 0 | 9 |
| Georgia | 2022 | 9 | 1 | 0 | 0 | 0 | 2 | 8 |
| Hawaii | 2020 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| Hawaii | 2021 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| Hawaii | 2022 | 2 | 0 | 0 | 2 | 0 | 0 | 0 |
| Idaho | 2020 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| Idaho | 2021 | 3 | 0 | 0 | 1 | 0 | 0 | 2 |
| Idaho | 2022 | 2 | 0 | 0 | 1 | 0 | 0 | 1 |
| Illinois | 2020 | 11 | 0 | 0 | 0 | 0 | 1 | 10 |

| State | Year | Outlets at Start of Year | Outlets Opened | Terminations | Non-Renewals | Reacquired by Franchisor | Ceased Operations - Other Reasons | Outlets at End of Year |
|---------------|------|--------------------------|----------------|--------------|--------------|--------------------------|-----------------------------------|------------------------|
| Illinois | 2021 | 10 | 1 | 0 | 0 | 0 | 0 | 11 |
| Illinois | 2022 | 11 | 0 | 0 | 1 | 0 | 0 | 10 |
| Indiana | 2020 | 8 | 1 | 0 | 0 | 0 | 0 | 9 |
| Indiana | 2021 | 9 | 0 | 0 | 0 | 0 | 0 | 9 |
| Indiana | 2022 | 9 | 0 | 1 | 0 | 0 | 1 | 7 |
| Iowa | 2020 | 4 | 0 | 0 | 0 | 0 | 0 | 4 |
| Iowa | 2021 | 4 | 1 | 0 | 0 | 0 | 0 | 5 |
| Iowa | 2022 | 5 | 0 | 0 | 0 | 0 | 0 | 5 |
| Kansas | 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Kansas | 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Kansas | 2022 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Kentucky | 2020 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| Kentucky | 2021 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Kentucky | 2022 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Louisiana | 2020 | 4 | 0 | 0 | 0 | 0 | 0 | 4 |
| Louisiana | 2021 | 4 | 0 | 0 | 0 | 0 | 0 | 4 |
| Louisiana | 2022 | 4 | 0 | 0 | 1 | 0 | 0 | 3 |
| Maine | 2020 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| Maine | 2021 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| Maine | 2022 | 2 | 0 | 0 | 1 | 0 | 0 | 1 |
| Maryland | 2020 | 7 | 0 | 0 | 0 | 0 | 0 | 7 |
| Maryland | 2021 | 7 | 0 | 1 | 0 | 0 | 0 | 6 |
| Maryland | 2022 | 6 | 0 | 0 | 0 | 0 | 0 | 6 |
| Massachusetts | 2020 | 4 | 0 | 0 | 0 | 0 | 0 | 4 |
| Massachusetts | 2021 | 4 | 0 | 0 | 0 | 0 | 0 | 4 |
| Massachusetts | 2022 | 4 | 0 | 0 | 0 | 0 | 0 | 4 |
| Michigan | 2020 | 12 | 0 | 1 | 1 | 0 | 0 | 10 |
| Michigan | 2021 | 10 | 0 | 0 | 0 | 0 | 1 | 9 |
| Michigan | 2022 | 9 | 0 | 0 | 0 | 0 | 0 | 9 |
| Minnesota | 2020 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| Minnesota | 2021 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| Minnesota | 2022 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| Mississippi | 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Mississippi | 2021 | 0 | 0 | 0 | 0 | 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 |
|----------------|------|--------------------------|----------------|--------------|--------------|--------------------------|-----------------------------------|------------------------|
| Mississippi | 2022 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Missouri | 2020 | 5 | 0 | 0 | 0 | 0 | 0 | 5 |
| Missouri | 2021 | 5 | 0 | 0 | 0 | 0 | 1 | 4 |
| Missouri | 2022 | 4 | 1 | 0 | 1 | 0 | 0 | 4 |
| Montana | 2020 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| Montana | 2021 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Montana | 2022 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Nebraska | 2020 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| Nebraska | 2021 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| Nebraska | 2022 | 3 | 0 | 0 | 1 | 0 | 1 | 1 |
| Nevada | 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Nevada | 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Nevada | 2022 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| New Hampshire | 2020 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| New Hampshire | 2021 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| New Hampshire | 2022 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| New Jersey | 2020 | 11 | 0 | 0 | 0 | 0 | 2 | 9 |
| New Jersey | 2021 | 9 | 0 | 0 | 0 | 0 | 0 | 9 |
| New Jersey | 2022 | 9 | 0 | 0 | 0 | 0 | 1 | 8 |
| New Mexico | 2020 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| New Mexico | 2021 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| New Mexico | 2022 | 2 | 0 | 0 | 1 | 0 | 0 | 1 |
| New York | 2020 | 13 | 0 | 1 | 1 | 0 | 1 | 10 |
| New York | 2021 | 10 | 0 | 2 | 0 | 0 | 1 | 8 |
| New York | 2022 | 8 | 0 | 1 | 1 | 0 | 1 | 5 |
| North Carolina | 2020 | 20 | 0 | 0 | 0 | 0 | 1 | 19 |
| North Carolina | 2021 | 19 | 0 | 0 | 0 | 0 | 1 | 18 |

| | | | | | | | | |
|----------------|------|--------------------------|----------------|--------------|--------------|--------------------------|-----------------------------------|------------------------|
| North Carolina | 2022 | 18 | 1 | 0 | 2 | 0 | 2 | 15 |
| North Dakota | 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | Outlets at Start of Year | Outlets Opened | Terminations | Non-Renewals | Reacquired by Franchisor | Ceased Operations - Other Reasons | Outlets at End of Year |
| State | Year | | | | | | | |
| North Dakota | 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| North Dakota | 2022 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Ohio | 2020 | 17 | 0 | 0 | 0 | 0 | 2 | 15 |
| Ohio | 2021 | 15 | 0 | 1 | 1 | 0 | 0 | 13 |
| Ohio | 2022 | 13 | 0 | 0 | 0 | 0 | 3 | 10 |
| Oklahoma | 2020 | 2 | 0 | 1 | 0 | 0 | 0 | 1 |
| Oklahoma | 2021 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Oklahoma | 2022 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Oregon | 2020 | 4 | 0 | 0 | 0 | 0 | 1 | 3 |
| Oregon | 2021 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| Oregon | 2022 | 3 | 0 | 0 | 2 | 0 | 0 | 1 |
| Pennsylvania | 2020 | 13 | 0 | 0 | 1 | 0 | 1 | 11 |
| Pennsylvania | 2021 | 11 | 0 | 0 | 0 | 0 | 1 | 10 |
| Pennsylvania | 2022 | 10 | 0 | 0 | 1 | 0 | 3 | 6 |
| Puerto Rico | 2020 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Puerto Rico | 2021 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Puerto Rico | 2022 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Rhode Island | 2020 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Rhode Island | 2021 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Rhode Island | 2022 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| South Carolina | 2020 | 9 | 0 | 0 | 0 | 0 | 0 | 9 |
| South Carolina | 2021 | 9 | 0 | 1 | 0 | 0 | 1 | 7 |
| South Carolina | 2022 | 7 | 1 | 0 | 0 | 0 | 0 | 8 |

| State | Year | Outlets at Start of Year | Outlets Opened | Terminations | Non-Renewals | Reacquired by Franchisor | Ceased Operations - Other Reasons | Outlets at End of Year |
|---------------|------|--------------------------|----------------|--------------|--------------|--------------------------|-----------------------------------|------------------------|
| South Dakota | 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| South Dakota | 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| South Dakota | 2022 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Tennessee | 2020 | 9 | 0 | 1 | 0 | 0 | 0 | 8 |
| Tennessee | 2021 | 8 | 0 | 0 | 0 | 0 | 0 | 8 |
| Tennessee | 2022 | 8 | 1 | 0 | 0 | 0 | 1 | 8 |
| Texas | 2020 | 19 | 0 | 0 | 2 | 0 | 1 | 16 |
| Texas | 2021 | 16 | 0 | 0 | 0 | 0 | 1 | 15 |
| Texas | 2022 | 15 | 0 | 0 | 1 | 0 | 1 | 13 |
| Utah | 2020 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| Utah | 2021 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| Utah | 2022 | 2 | 0 | 0 | 0 | 0 | 0 | 2 |
| Vermont | 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Vermont | 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Vermont | 2022 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Virginia | 2020 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| Virginia | 2021 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| Virginia | 2022 | 3 | 0 | 0 | 1 | 0 | 0 | 2 |
| Washington | 2020 | 11 | 0 | 0 | 1 | 0 | 1 | 9 |
| Washington | 2021 | 9 | 0 | 0 | 0 | 0 | 0 | 9 |
| Washington | 2022 | 9 | 0 | 0 | 2 | 0 | 1 | 6 |
| West Virginia | 2020 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| West Virginia | 2021 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| West Virginia | 2022 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Wisconsin | 2020 | 12 | 0 | 0 | 2 | 0 | 1 | 9 |
| Wisconsin | 2021 | 9 | 1 | 0 | 0 | 0 | 2 | 8 |
| Wisconsin | 2022 | 8 | 0 | 0 | 1 | 0 | 1 | 6 |
| Wyoming | 2020 | 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 |
|---------|------|--------------------------|----------------|--------------|--------------|--------------------------|-----------------------------------|------------------------|
| Wyoming | 2021 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Wyoming | 2022 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Total | 2020 | 297 | 4 | 7 | 10 | 0 | 19 | 265 |
| Total | 2021 | 265 | 3 | 4 | 3 | 0 | 13 | 248 |
| Total | 2022 | 248 | 6 | 4 | 20 | 0 | 25 ² | 205 |

Table No. 4
Status of Company Owned Outlets
For years 2020, 2021, 2022

| State | Year | Outlets at Start of Year | Outlets Opened | Terminations | Non-Renewals | Reacquired by Franchisor | Ceased Operations - Other Reasons | Outlets at End of Year |
|--------|------|--------------------------|----------------|--------------|--------------|--------------------------|-----------------------------------|------------------------|
| Totals | 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 2022 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

² In 2022, 7 franchisees ceased operations due to retirement. 1 franchise ceased operating following the death of the individual franchisee. One franchisee sold his business, which continues to operate as an independent search firm, which resulted in the franchise ceasing operations at multiple outlets.

Table No. 5
Projected Openings as of January 1, 2023

| State | Franchise Agreements Signed But Outlet Not Opened | Projected New Franchised Outlet In The Next Fiscal Year | Projected New Company-Owned Outlet in the Next Fiscal Year |
|----------------|---|---|--|
| California | 0 | 2 | 0 |
| Colorado | 0 | 1 | 0 |
| Connecticut | 0 | 1 | 0 |
| Florida | 0 | 2 | 0 |
| Illinois | 0 | 2 | 0 |
| New Jersey | 0 | 1 | 0 |
| New York | 0 | 2 | 0 |
| North Carolina | 0 | 2 | 0 |
| South Carolina | 0 | 2 | 0 |
| Texas | 0 | 2 | 0 |
| Washington | 0 | 1 | 0 |
| Total | 0 | 18 | 0 |

Exhibit D-1 lists the names of all our current members as of December 31, 2022.

Exhibit D-2 lists every member who has had an outlet terminated, cancelled, not renewed, or otherwise voluntarily or involuntarily ceased to do business under the franchise agreement during our most recently completed fiscal year or who has not communicated with us within 10 weeks of the issuance date of this disclosure document.

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

During the last three fiscal years, we have signed confidentiality clauses with some current or former members. Confidentiality agreements were entered into as part of a settlement of a dispute between us and the current or former member or, in some cases, with individuals who chose to cease operations prior to the expiration of their franchise agreement for any reason. In some instances, current or former members sign provisions restricting their ability to speak openly about their experience with MRI. You may wish to speak with current or former owners but be aware that not all such members will be able to communicate with you.

Exhibit F lists the trademark specific organization that we sponsor.

ITEM 21: FINANCIAL STATEMENTS

HQ MRI Corporation is a wholly owned subsidiary of HireQuest, Inc. Attached are audited year-end financial statements of HireQuest, Inc. for the years ended December 31, 2022, December 31, 2021, and December 31, 2020.

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: MRI Franchise Agreement, MRI Contract Staffing Agreement, Confidentiality and Non-Compete Agreement, Personal Guaranty, and Agreement to Arbitrate Member Disputes; Promissory Note and Security Agreement (“Loan Documents”).

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.



Management Recruiters Franchise Agreement

Member1
Member2

BrandName

Franchise Number: 9999-1

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EXHIBIT A: CONFIDENTIALITY AND NON-COMPETE AGREEMENT

EXHIBIT B: MEMBER’S PERSONAL GUARANTY

EXHIBIT C: MRI CONTRACT STAFFING AGREEMENT

EXHIBIT D: AGREEMENT TO ARBITRATE MEMBER DISPUTES

EXHIBIT E: ACH AUTHORIZATION

**MANAGEMENT RECRUITERS
FRANCHISE AGREEMENT**

This Agreement is entered into as of the Effective Date indicated on Schedule 1 of this Agreement at Goose Creek, SC, by and between HQ MRI Corporation, a Delaware corporation (“MRI” or “Franchisor”) and Member1 and Member2 (“Principal”) or (collectively “Member”).

RECITATIONS

Through the expenditure of considerable time, effort, and money, Franchisor has designed, developed, and established the MRI System (as defined herein), which is identified by the Marks (as defined herein).

MRI continues to develop, use, and control the use of the Marks in order to identify for the public the source of services and products marketed under the Marks and the System and to represent the System’s high standards of quality and service.

Member 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.

Member has decided to enter into this Agreement because Member desires to operate a high- quality personal placement and staffing business utilizing the System. Member 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 Member 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 monthly period ending on the final day of each month 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 Member.

"Agreement" shall mean this Franchise Agreement dated, _____, 20__

"Operations Materials" shall mean the Franchisor's confidential Operations Materials, containing the Trade Secrets, including, without limitation, specifications, standards and procedures by which the Franchised Business shall be conducted so as to comply in all respects with the MRIÒ brand standards, as amended from time to time.

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

"Marketing and Public Relations Fee" shall mean a monetary amount equal to the sum of 0.5% of Net Cash-In arising out of operations of the Franchised Business.

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

"Effective Date" shall mean _____, 20__.

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

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

"Franchised License" shall mean the right and license granted pursuant to the terms of this Agreement to use the Marks, the Operations Manual, and the MRIÒ System only and exclusively for the operation of a MRIÒ Franchised Business as set forth in this Agreement.

"Franchisor" shall mean HQ MRI Corporation or as may be applicable, its parent, subsidiaries, or affiliates.

"General Manager" shall mean the person primarily responsible to coordinate and manage the Franchised Business for Member 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/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 Members to be held from time to time at Franchisor's discretion.

"Initial Franchise Fee" shall mean of Forty Thousand Dollars (\$40,000.00) payable upon signing the Franchise Agreement. **The Initial Franchise Fee is fully earned upon**

execution of the Franchise Agreement and not refundable under any circumstances.

This fee will not be applicable if the execution of this Agreement is a renewal of an existing franchise agreement.

"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.

"Location" shall mean the office (hereinafter defined) from which the Franchised Business shall be conducted. The Location shall be at the address set forth in Schedule 1 attached hereto and incorporated herein by this reference.

"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" 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 Royalty" shall mean twelve thousand dollars (\$12,000.00) which shall be due beginning on the first day of the third full calendar year after the Effective Date continuing each calendar year thereafter for the duration of the Term.

"Net Cash-In" shall mean all receipts from Member's staffing and related services business, including, but not limited to, receipts from the performance of placement, recruiting, outplacement, and management consulting services, and any other similar staffing, training, human resource, salary surveys or analysis, or other business in which Member or MRI or its subsidiaries is presently or subsequently engaged, less only any refunds and split fees paid to any other MRI member and sales and use taxes collected by Member for payment to the relevant taxing authority. "Net Cash-In" also includes all receipts of Member and any affiliate of Member from any such business and any other business in which Member may engage in violation of any obligation contained in this Agreement. Recruiter Profitability Share received for contract staffing engagements through MRI Contract Staffing is not Net Cash-In for the purposes of Royalty and MPRF fees.

"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 Franchised Business.

"Operating Materials" shall mean MRI's standards, methods, marketing, training, and assistance using its confidential business practices and policies, and online training and operating resources.

"Recruiter Profitability Share" is the amount received from MRI Contract Staffing engagements less the payroll and fees paid to MRI Contract Staffing pursuant to the MRI Contract Staffing Contract Staffing Agreement, Exhibit C to this Agreement.

"Royalty" shall mean a continuing fee payable on the 5th day of each month of the Agreement on any Net Cash-In arising out of the Franchised Business in the following amounts:

Nine percent (9%) on the first \$500,000 of Net Cash-In;
Seven percent (7%) on Net Cash-In from \$500,001 to \$1,000,000;
Five percent (5%) on Net Cash-In from \$1,000,001 to \$2,000,000;
Three percent (3%) on Net Cash-In that exceeds \$2,000,000.

Net Cash-In targets are applied each calendar year for the period January 1 through December 31. Targets are not applied over the term of the Franchise Agreement.

"Secondary Name" shall mean an additional name (in addition to the MRI marks) of Member's choosing that does not incorporate any of the MRI Marks that Member may utilize in operation of the Franchised Business subject to Franchisor's approval and any conditions attached thereto.

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

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

"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 Operating Materials, MRI's quality standards, instructional materials, and other training courses.

"Trade Secrets" shall mean all customer lists, sales and advertising and promotional information, employee lists, financial information furnished or disclosed to Member by Franchisor, the Software, training and educational materials, the Operations Manual, and other information with respect to Franchisor, the MRI System, and/or customers of Franchisor (i) of which Member 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 Member 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.

2. GRANT AND LIMITATIONS

- 2.1 Franchisor grants to Member and Member accepts, upon the terms and conditions contained herein, a Franchised License to operate the Franchised Business, using only the Marks licensed hereunder which may be changed, improved, and further developed by MRI from time to time. This grant applies only to the non-exclusive Location selected by the Member and

approved by MRI, which is more particularly described in Section 4, herein, and in Schedule 1, attached to this Agreement.

- 2.2 Based on the unique characteristics of the placement and staffing industry, MRI grants Member the right to use a Secondary Name provided that MRI has first approved the Secondary Name in writing. The approval of the Secondary Name will be within MRI's business judgment but will not be reasonably withheld. Member may use the Marks, and the Secondary Name in such manner and under such circumstances as MRI may determine from time to time. Member acknowledges and agrees that the Secondary Name is used solely for the operation of the Franchised 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 Member acknowledges that MRI does not conduct a trademark search to determine if Member's Secondary Name infringes on the trademarks or service marks used by another. It is Member's 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 Member learns of any infringing activity involving the Secondary Name, Member must notify MRI and cease use of the Secondary Name immediately.
- 2.4 Member will display in its office and on any website, social media account, and other marketing materials the statement "An Independent Member of MRINetwork" or such other designation as MRI may require.

The parties hereto acknowledge that this Agreement and the rights granted herein are a license only, that Member is acting independently in Member's own business and is not authorized to act for or on behalf of MRI, and MRI is not authorized to direct the day-to-day operations of Member's business or the acts of Member's agents or employees. None of the acts or commitments of Member shall in any manner bind or obligate MRI.

- 2.5 Reservation of Rights. Franchisor reserves all rights not expressly granted to Member in this Agreement. Except as otherwise provided herein, without limiting the generality of the foregoing, reserves the right, without geographic limitation, to:
 - (i) Sell products and services authorized for Franchised Businesses, using the Marks or other trademarks, service marks and commercial symbols;
 - (ii) Operate and grant to others the right to operate Franchised Businesses under such terms and conditions as Franchisor deems appropriate;
 - (iii) 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, temporary personnel placement services, including businesses that are the same or similar to your Franchised Business, and which in all instances shall be identified by trademarks and/or service marks that are not the same as, and not similar to, the trademarks and/or service marks granted by this Franchise Agreement.

- (iv) Provide billing, collecting, payroll, insurance, accounting services and financing of receivables to other firms; and
- (v) Negotiate and enter into contracts with Global Account Customers to provide services offered on a regional, national, or other specialty basis. Member 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, after consultation, Member declines to provide the services, the Franchisor may itself or through a third party provide the services. If a designated contractor or if we ourselves provide Global Account Customer services in these circumstances, we may employ the same trademark and service marks as are granted to you under this Franchise Agreement, or any other trade names or service marks we designate. If Member elects to provide the services, all standards of performance that may be required by the national account client 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 Member, the Franchisor shall in good faith consult with Member regarding its performance. After consultation, the Franchisor may direct that either it or a third party may provide the services.

3. INITIAL TERM

The Initial Term shall commence on the Effective Date of this Agreement and, unless terminated sooner pursuant to Section 17 shall expire on December 31st of the tenth (10th) full calendar year following the Effective Date of this Agreement.

4. LOCATION

- 4.1. Location. This Agreement grants Member the right to operate the Franchised Business from a single non-exclusive Location identified on Schedule 1, attached hereto, which must be approved by MRI, subject to Section 4.6 below. Member shall not operate or permit any other party to operate any business other than the Franchised Business out of the Location. Member agrees and acknowledges that this Agreement does not grant Member any exclusive territory.
- 4.2. Site Selection. MRI has the right to approve a site for the operation of a Franchised Business Location, which it will grant or refuse in its sole discretion.
- 4.3. Time to Open. Member acknowledges that time is of the essence in this Agreement. Member must complete all preparations for the Franchised Business, including but not limited to the purchase of all necessary materials needed to operate the Franchised Business and open the business no more than sixty (6) days following completion of New Office Training. If Member fails to comply with its obligations to meet all pre-opening obligations, MRI will have the right to prohibit Member from opening the business upon written notice.

- 4.4. Failure to Open. Member's failure to open the Franchised Business and commence business in accordance with Section 4.3 is a material default of this Agreement. In the event the failure to open continues for more than ninety (90) days, MRI has the right, but not the obligation to terminate this Agreement and all of Member's rights thereunder and retain all monies paid to MRI by Member, as well as any and all other rights and remedies of MRI on Member's default, whether provided by this Agreement or by law.
- 4.5. Relocation. Member may not relocate the Franchised Business without MRI's written approval of the new location. Member acknowledges that MRI, in the past, granted exclusive territories and some of these territories may still exist within the MRINetwork (the "Legacy Territory"). MRI will not deny relocation unless, in its sole judgment, such relocation would be a violation of another member's territorial rights. In the event a Member seeks to relocate into a Legacy Territory, Member acknowledges that it may be required to make payment of a Supplemental Royalty above Member's Royalty, as described in Section 5, which will be paid, in full, by MRI 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.
- 4.5.1. If Member's request is approved, Member agrees to sign a Relocation Amendment identifying any terms or conditions of the relocation and confirming the new location for the Franchised Business. Member's relocation will be at Member's sole expense. In the event of a relocation, Franchise 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.
- 4.5.2. If Member relocates the Franchised Business without MRI's approval, Member will reimburse MRI for any Supplemental Royalty MRI is required to pay to the Legacy Territory owner for the remaining term of this Franchise Agreement.
- 4.6. Location Visit. MRI has the right, but not the obligation, to enter the Location premises during normal business hours to inspect the operations of the Franchised Business, provide training and support, review records, and conduct other activity it deems necessary to foster and confirm compliant operation of the Franchised Business.
- 4.7. Maintenance of Location. Member will maintain the Franchised Business and Location to the standards of safety, sanitation, repair, and condition required by all applicable governmental authorities for the Location.

5. FEES

- 5.1 Initial Franchise Fee. Member acknowledges and agrees that the Grant of this franchise and the rights and obligations of the parties under this Agreement constitutes the sole and only consideration for the initial franchise fee. Member shall pay to MRI an initial franchise fee of Forty Thousand Dollars (\$40,000.00) payable upon signing the Franchise Agreement. **The Initial Franchise Fee is fully earned upon execution of the Franchise Agreement and not refundable under any circumstances.** This fee will not be applicable if the execution of this Agreement is a renewal of an existing franchise agreement.

5.2 Jump Start. In the event Member is entering into this Agreement as the result of a Transfer, Member shall pay MRI, in lieu of the Initial Franchise Fee, an amount equal to \$5,000 to cover the costs of training and other onboarding expenses.

- 5.3 Royalty. Member shall pay a Royalty as described below:
- Nine percent (9%) on the first \$500,000 of Net Cash-In;
 - Seven percent (7%) on Net Cash-In from \$500,001 to \$1,000,000;
 - Five percent (5%) on Net Cash-In from \$1,000,001 to \$2,000,000;
 - Three percent (3%) on Net Cash-In that exceeds \$2,000,000.

Payment to be made on the 5th day of each month starting on the 5th day of the month immediately following execution of this Agreement on any Net Cash-In received by Member from the Effective Date and continuing until the Expiration Date as described in Schedule 1 to this Agreement:

Net Cash-In targets are applied each calendar year for the period January 1 through December 31. Targets are not applied over the term of the Franchise Agreement.

- 5.4 Marketing and Public Relations Fund (MPRF). Member shall pay to MRI a monthly MPRF fee equal to one-half percent (0.5%) of Member's Net Cash-In to be paid on the 5th day of each month starting on the 5th day of the month following execution of this Agreement on any Net Cash-In received for placements made by Member from the Effective Date and continuing until the Expiration Date as described in Schedule 1 to this Agreement.

5.5 Minimum Annual Royalty.

5.5.1 Member is required to pay a Minimum Annual Royalty ("MAR") of \$12,000.00 per calendar year based on the Royalty and interim staffing fees paid to HQ MRI Corporation, less burden, which will be included in the calculation of royalty for the sole purpose of determining if MAR has been met.

5.5.2 The MAR will begin on the first day of the third full calendar year after the Effective Date of this Agreement and continuing for each succeeding calendar year thereafter through the Expiration Date as described in Schedule 1 to this Agreement unless this Agreement is a Renewal of an existing franchise agreement. In the event this Agreement is entered into as part of a Renewal, the MAR will become effective on the Effective Date. If the MAR is not met by the end of any calendar year, Member must pay an amount equal to the difference between any Royalties paid and the MAR. The payment of any monies due for failure to meet the MAR will be paid by Automated Clearing House ("ACH") electronic transfer, as more fully described in Section 5.9 below, on or before April 1 of each year, or such other date as determined by MRI upon thirty (30) days written notice of the date change.

- 5.5.3 In the event of termination of this Agreement for default, prior to the Expiration Date, Member shall be responsible for payment of the MAR for the remaining term of this Agreement, unless otherwise waived by MRI in writing. In the event of a Termination in accordance with Section 16.1, Section 16.1 will define the manner of payment to MRI for Termination, if applicable.
- 5.6 Estimated Royalty/MPRF. In the event Member does not report Net Cash-In within five (5) days of the due date for reporting, Franchisor may estimate and collect payment of Royalty and MPRF fees based on the Estimated Royalty. Royalty and MPRF will be estimated at 120% of the last Royalty and MPRF fee paid. If no Royalty and MPRF fee has been paid, MRI will use \$1,000 as the Estimated Royalty/MPRF. Any over or under payment will be credited or charged to the next month's Royalty Fee. In no event, will MRI be required to make payment of a refund to Member. Member's only remedy for an overpayment resulting from an estimated royalty will be a credit. The estimation of Royalty and MPRF fees described in this Section 5.8 does not relieve Member from its obligations to report Net Cash-In in accordance with this Agreement and does not create a waiver of any rights held by MRI.
- 5.7 Method of Payment. Member will submit Net Cash-In reports monthly and together with the submission of its monthly reports, as described in Section 6 herein, advise MRI of the Net Cash- In for the prior month. MRI will withdraw, through ACH transfer, the Royalty and MPRF fees, then due. Member is required to sign the ACH Authorization attached to this Agreement as Exhibit E. Member must at all times retain sufficient funds in the bank account from which ACH payments are made to make payment of all fees due to MRI. Member's failure to maintain sufficient funds in its bank account to cover all fees or to allow electronic funds transfers more than three (3) times during the term of this Agreement is a material breach of this Agreement.
- 5.8 Annual Owners Meeting Registration Fee: Member is required to attend the annual owners meeting and to make payment of the registration fee in an amount to be determined annually. If Member 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.
- 5.9 Additional Training Fee. MRI may charge an Additional Training Fee for classroom training. It will be based on the type of training, duration, and other factors. The price will be published prior to your attendance.
- 5.10 Late Fee. If any Monthly Report is not received by MRI as required by this Agreement, Member shall pay to Franchisor a late fee of Fifty Dollars (\$50) 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 MRI under this Agreement.
- 5.11 Interest. Any and all amounts that are unpaid at the time they are due and owing from Member to MRI 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.

- 5.12 Insufficient Funds Fee. In the event any of Member's payments are returned or denied for insufficient funds, Member will pay MRI, in addition to the amount due, an Insufficient Fund Fee of Fifty Dollars (\$50) or an amount equal to that charged to MRI by its bank, whichever is higher, per occurrence. This Insufficient Funds Fee is reasonably related to Franchisor's costs resulting from the delayed and declined payment and is not a penalty. It is in addition to any other remedy available to MRI under this Agreement.
- 5.13 Transfer Fee. Member will pay a Transfer Fee of \$5,000. Payment of the Transfer Fee shall be made at the time of transfer.
- 5.14 Additional Desk Specialty Fee. In the event Member requests MRI conduct research and build a database to add an additional desk specialty, Franchise will pay the then-current Additional Desk Specialty Fee, which is currently \$2,000.
- 5.15 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 Member chooses to participate in a national vendor program and the vendor requires payment directly from MRI, Member agrees to make its payment for such third-party vendor services directly to MRI in accordance with the requirements of the vendor and instructions of MRI.

6 REPORTING AND PAYMENT

- 6.1 Member must report all activity of the Franchised Business for every Accounting Period as instructed by MRI and in the manner prescribed by MRI, whether or not Member has had Net Cash-in during the Accounting Period (the "Net Cash-In Report"). The Net Cash-In Report must be submitted and verified no later than the fifth (5th) day of each month for the preceding month's activities and will be in such form and will contain such information as MRI may from time to time require.
- 6.2 Payment of fees are due on a monthly basis on the fifth (5th) day of the month, unless otherwise specified from time to time, utilizing the methods and procedures as MRI may designate from time to time. Late payments incur fees and interest as provided in Sections 5.12 and 5.13, above.
- 6.3 Prior to beginning business under this Agreement, Member shall establish and continuously maintain an account for the transfer of fees to MRI. Member shall provide MRI with the completed ACH Authorization, attached hereto as Exhibit E. The ACH Authorization may not be withdrawn or modified without the prior written approval of MRI, which approval will be within the business judgment of MRI. Member shall also execute such other forms relating to funds transfer as MRI may request from time to time. If Member closes the bank account for which the ACH Authorization has been given, Member must provide a revised ACH Authorization within one (1) business day of the account closure.
- 6.4 Member shall deposit all receipts of the Member's business in the designated account. In the event Member maintains any other accounts of any type for Member's business, Member shall identify these accounts to MRI and provide to MRI copies of the monthly statements for all such accounts and the details of all deposits to them.

- 6.5 MRI is not obligated to make payment of cash to Member for any overpayment of fees, whether resulting from the payment of refunds or split fees, or other causes. Any overpayment will be remedied as an adjustment to the next payment(s) due from Member.
- 6.6 Member shall pay the charges imposed by Member's bank and MRI shall pay the charges imposed by MRI's bank relating to the funds transfer program.
- 6.7 Beginning on the day after any Royalty or Marketing and Public Relations Fund Fee payment is due, interest shall accrue on any unpaid balance at the rate of one- and one-half percent (1.5%) per month (or such lesser rate as may be the highest rate permitted under applicable law for transactions of this type). In addition, Member agrees to reimburse MRI for all costs and expenses, including reasonable attorneys' fees, incurred in the collection and determination of amounts due hereunder.
- 6.8 To the extent MRI provides Member with any services or products not covered by this Agreement, MRI may determine the fees to be paid by Member for services or products, subject to the right of Member to choose not to receive them.
- 6.9 Member authorizes MRI to obtain a credit report on Member at any time during the term of this Agreement, and after its expiration or termination if Member owes money to MRI on the date of expiration or termination.

7 OBLIGATIONS OF MRI

MRI will provide the following services described below:

- 7.1 Operations Materials. MRI shall provide Member with electronic access to MRI Operations Materials. The Operations Materials will remain, at all times, the property of MRI. Member agrees that it will comply with all obligations set forth in the operating materials and acknowledges that the operating materials may be changed from time to time, in MRI's sole discretion. Member agrees to comply with all changes to the operating materials. Member may not share operating materials or access to its online platform with anyone other than employees and managers or use them for any other purpose besides the operation of the Franchised Business. Member acknowledges that the Operations Materials are Trade Secrets and are the exclusive property of MRI.
- 7.2 Support. Ongoing support and consultation to Member as needed for operation of the Franchised Business.
- 7.3 Onboarding. MRI will advise and instruct the Member in the equipment and procedures necessary to locate and set-up the Franchised Business.

- 7.4 Training. The training programs specified in Section 8, herein. All training programs are subject to change at MRI's discretion.
- 7.5 Post-Opening Assistance. Post-opening assistance and consultation via telephone or at the Location as determined by MRI.
- 7.6 Marketing and Public Relations Consultation. Provide Member with consultation and guidance on marketing and public relations for the promotion of the Franchised Business.
- 7.7 Marketing and Public Relations Fund. Administer a Marketing and Public Relations Fund.
- 7.7.1 MRI has established a Marketing and Public Relations Fund on behalf of the System to provide marketing, advertising, public relations services, materials, training as well as meetings and events to support the MRINetwork. MRI will direct all advertising and marketing programs and have sole discretion in the creative concepts, materials, and media used in such programs and the placement and allocation thereof.
- 7.7.2 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 MRI believes, in its sole business judgment, will enhance and improve the image of the MRINetwork.
- 7.7.3 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.
- 7.7.4 MRI has no obligation to make expenditures that are equivalent or proportionate to Member's MPRF contribution or to ensure that any member benefits directly or pro-rata from the production or placement of advertising from the MPRF.
- 7.7.5 MRI will prepare an unaudited annual statement of the MPRF's operations and will make it available upon written request.
- 7.7.6 Although the MPRF is intended to be of perpetual duration, MRI may terminate it at any time and for any reason, or no reason. Franchisor will not terminate the MPRF, however, until all monies in the MPRF have been expended.
- 7.8 Website. MRI will maintain a website at MRINetwork.com and will include Member's franchised business in its directory of members available to the public. MRI will provide you with a WordPress Website template and web hosting and maintenance for one (1) year, and annual website consultation.
- 7.9 Approved Vendor Program. Provide a list of approved vendors and negotiate vendor discounts for use by members in the franchised businesses. MRI 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. Member acknowledges that while MRI

makes every reasonable effort to offer advantageous vendor discounts, MRI cannot and does not guarantee the availability of particular vendor discounts.

- 7.10 If MRI 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 MRI, whether or not on account of purchases made (i) by MRI for its own account or for Member’s account, or members generally, or (ii) by Member directly for its own account, MRI is not required to reimburse or share such funds with Member.

8 NEW OFFICE TRAINING

- 8.1 Prior to opening its office, Member must attend, and successfully complete to MRI’s satisfaction, New Office Training. Should Member not successfully complete New Office Training, MRI may, in its sole discretion, require Member to retake training or participate in such supplemental training as MRI determines, in its sole discretion, is necessary to successfully complete training, to Member’s benefit.
- 8.2 MRI will provide Member will all materials necessary for the training and access to MRI’s online training resources.
- 8.3 Member must participate in New Office Training and work directly with the trainer(s) assigned to Member. Member must participate in all other Training MRI designates as mandatory or necessary, which will be conducted through web-based e-learning, conference training, and coaching.
- 8.4 MRI will provide additional training through its online training resources, one-on-one consultation either by telephone, face-to-face or video as determined by MRI, and company sponsored events and meetings. In the event Member operates from a home office, MRI will not provide face-to-face meetings.

9 MEMBER’S REPRESENTATIONS, WARRANTIES AND COVENANTS

- 9.1 Best Efforts. Member covenants and agrees that it will devote its full time and best efforts and using all commercially reasonable efforts to operate the Franchised Business so as to achieve optimum placements.
- 9.2 Corporate Representations. If Member is a corporation, partnership, limited liability company, or other legal entity, Member and each shareholder, director, and officer (the “Principal(s)”) described in Schedule 2 to this Agreement represent, warrant and covenant that:
- 9.2.1 Member is duly organized and validly existing under the state law of its formation;
- 9.2.2 Member is duly qualified and authorized to do business in the jurisdiction of the Location;
- 9.2.3 Member’s organization documents will at all times provide that the activities of Member are confined exclusively to the operation of the Franchise granted herein, unless

otherwise consented to in writing by MRI, which consent may be withheld by MRI in its sole discretion;

- 9.2.4 The execution of this Agreement and the consummation of the transactions contemplated in this Agreement are within Member's power and have been duly authorized by Member;
- 9.2.5 Copies of Member'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 Member, and any other documents as may be reasonably required by MRI will be furnished to MRI;
- 9.2.6 The ownership interests in Member are accurately and completely described on Schedule 2 of this Agreement;
- 9.2.7 If Member is a corporation, Member will 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 Member is a partnership or limited liability company, its written partnership or limited liability company operating agreement must provide that ownership of an interest in such entity is held subject to all restrictions on assignments imposed by this Agreement;
- 9.2.8 Member will at all times maintain sufficient working capital to fulfill its obligations under this Agreement. Member and each Guarantor will, upon written request, provide MRI 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 GAAP applicable to the respective periods involved and, except as expressly described in the applicable notes, 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 Member or Principal; and
- 9.2.9 Each Principal having a 10% or greater share in the Member will personally execute and bind himself or herself to the Confidentiality and Non-Compete Agreement and the Personal Guaranty, in the forms of Exhibit A and B to this Agreement, respectively. Each shall jointly and severally guarantee Member's performance of all of Member's obligations, covenants and agreements under the Agreement, and otherwise bind themselves to the terms of this Agreement as stated herein, pursuant to the terms and conditions of the Confidentiality and Non-Compete Agreement and Personal Guaranty.

9.3 Appointment of General Manager.

9.3.1 Member, or one of Member's Principals, should be designated as the General Manager. If Member or Member's Principals cannot act as General Manager, Member must hire a General Manager to direct the operation and management of the Franchised Business. Member shall designate its General Manager prior to attending Training.

9.3.2 The General Manager must, during the entire period as General Manager, meet the following qualifications:

9.3.2.1 The General Manager will meet Franchisor's standards and criteria for such individual, as set forth in writing by MRI and will be an individual otherwise acceptable to MRI in its sole discretion.

9.3.2.2 The General Manager will devote his or her full time and best efforts to the supervision and management of the Franchised Business and may not engage in any other business activity without MRI's consent, which may be withheld in MRI's sole discretion.

9.3.2.3 The General Manager will satisfy the training requirements set forth in Section 8 herein.

9.3.3 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, Member will promptly notify MRI and designate a replacement within thirty (30) days after the General Manager ceases to serve, or such time granted by MRI 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 MRI). Any Principal who meets the qualifications may serve as General Manager.

9.4 Legal Compliance. Member 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 Franchised 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. Member shall pay all taxes and other fees owed to any federal, state, or local government when due.

9.5 Claims. Member will notify MRI 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 instrumentality, in any way relating to or affecting the operation or financial condition of the Franchised Business.

- 9.6 Contract Staffing. Member will enter into the MRI Contract Staffing Agreement attached hereto as Exhibit C. Member shall only provide contract staffing services under the MRI Contract Staffing Agreement, unless otherwise agreed in writing by MRI. Member agrees and acknowledges that the MRI Contract Staffing Agreement runs concurrent with this Agreement and will terminate upon expiration or termination of this Agreement.
- 9.7 Continuing Obligation. Member and each Principal acknowledge and agree that the representations, warranties, and covenants set forth in this Section 9 are continuing obligations of Member 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. Member and each Principal will cooperate with MRI in any efforts made by MRI to verify compliance with such representations, warranties, and covenants.

10 MEMBER OPERATIONS

- 10.1 Operation of Franchised Business. In order to maintain the highest degree of quality and service, Member will:
- 10.1.1 Establish an office in commercial space or an executive suite and commence business under the service marks on or before sixty (60) days of the last day of New Office Training.
- 10.1.2 MRI strongly recommends that Member maintain a staff of a size and qualifications sufficient to run the business expeditiously and properly and to adequately serve Member's market, to include at least one employee (account executive or administrative assistant) in addition to Member, no later than six months after the last day of New Office Training. All persons employed or retained by Member are the employees or agents of Member and not MRI. Member shall disclose this to all persons employed or retained by Member and will ensure that all materials provided to applicants of the Franchised Business during the application and hiring process prominently state: **This business is an independently owned and operated franchise of the MRINetwork. You are not an employee or agent of HQ MRI Corporation.**
- 10.1.3 Member agrees to comply with the System standards as modified from time to time, and all directives, rules, and procedures specified by MRI, and will, among other things:
- 10.1.3.1 Maintain and operate the Franchised Business in good condition in a proper and businesslike manner;
- 10.1.3.2 Comply with all applicable governmental laws, ordinances, rules, and regulations, including prompt payment of taxes when due;
- 10.1.3.3 Adhere to the highest standards of honesty, integrity, fair dealing, and ethical conduct in all dealings with other members, customers, clients, vendors, and MRI;
- 10.1.3.4 Employ only qualified individuals who are trained in accordance with MRI'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. Member shall use its best efforts to ensure that its

employees render competent and courteous service to all customers and clients. Member 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. MRI strongly recommends that Member maintain a staff of a size and with qualifications sufficient to run the business expeditiously and properly and to adequately serve Member's market to include at least one employee (account executive or recruiter) in addition to Member no later than six months after the last day of New Office Training.

- 10.1.3.5 Prominently display on all marketing materials, websites, and upon any signage or office location the term "A Proud Independent Member of MRINetwork," or such other term as we approve, in the manner and form prescribed by MRI within thirty (30) days of the execution of this Franchise Agreement.
 - 10.1.3.6 Conduct all advertising programs in a dignified manner that will not detract, in MRI's sole discretion, from the reputation of the System or the Marks;
 - 10.1.3.7 Cease use of any advertising programs or materials within twenty-four (24) hours of receipt of written notice from MRI.
 - 10.1.3.8 Offer all and only such services as may from time to time be approved and/or required by MRI.
 - 10.1.3.9 Devote Member's full time (no less than 32 hours per week), energy, and best efforts to the efficient and effective management and operation of the Franchised Business and use the Location only for the purposes designated in this Agreement, and avoid any activities that would conflict or interfere with or be detrimental to such purposes;
 - 10.1.3.10 Only use the Marks as they relate to the System and then only as previously approved by MRI.
 - 10.1.3.11 Have at all times a designated General Manager and a Principal (which may be the same person) who have been properly trained as required herein.
 - 10.1.3.12 Comply with the MRI Code of Conduct, as may be amended from time to time.
- 10.2 Bookkeeping and Reports. Member agrees to keep and maintain complete and accurate books and records of its transactions and business operations utilizing generally accepted accounting principles ("GAAP"). Member agrees to maintain the records and accounts of the Franchised 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 Within thirty (30) days after a request by MRI, Member will furnish MRI with a full and complete written statement of income and expense and a profit and loss statement for

the operation of the Franchised Business together with a balance sheet for the Franchised Business, all of which must be prepared in accordance with 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, Member's books, records, bank statements, tax returns, and other documents MRI determines it requires for conducting the audit. Franchise is required to provide MRI with copies of all materials requested in the manner requested, including by electronic means, at Member's expense. If MRI's examination finds that any Net Cash-In report was understated, Member must reimburse MRI for the cost of the examination, which will be at a minimum, One Thousand Dollars (\$1,000.00). Member must also make payment of any and all amounts due as a result of the understatement along with interest as described in this Agreement within five (5) business days. Underreporting is a material default of this Agreement. Three (3) understatements of any amount during the term of this Agreement may, at the option of MRI, be considered an incurable default and thereby subject to termination as provided herein.

10.3 Computer Systems.

10.3.1 Member, at Member's expense, shall install and maintain management software, and computer hardware and software MRI requires for the operation of the Franchised Business.

10.3.2 MRI may require Member, at Member's sole expense, to enter into software license agreements in the form that MRI requires for software MRI develops or acquires for use in the System.

10.3.3 Member shall have and maintain adequate hardware and software in order to access high speed Internet. Member shall maintain an electronic mail account. Member shall read all electronic mail related to the Franchised Business on a daily basis and shall accept and acknowledge receipt of all electronic mail sent by MRI.

10.3.4 MRI has established a website that provides information about the System and the services offered by the MRI franchises (the "Website"). MRI has sole discretion and control over the Website. All such information will be subject to Franchisor's approval prior to posting. Member has no ownership or other proprietary rights to such page and will lose any rights to such page upon expiration or termination of this Agreement for any reason.

10.3.5 Member shall pay all fees and expenses for technology used in the Franchised 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 Approved Vendors. Member agrees and acknowledges that in order to ensure continuity and compliance with the System, MRI may approve a vendor as the only

provider of a good or service. If MRI designates an approved vendor as the sole source of a good or service, unless waived by MRI in writing, Member agrees to use such vendor as the sole source of a good or service.

- 10.5 Variations in Standards. Notwithstanding anything to the contrary contained in this Agreement, and this Section 10 in particular, Member acknowledges and agrees that because complete and detailed uniformity under many varying conditions may not be possible or practical, MRI 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 members based upon the peculiarities and characteristics of the particular franchise or circumstance, business potential, existing business practices or any other condition which MRI deems to be of importance to the successful operation of such particular franchise business. MRI has full rights to vary standard practices for any other member at any time without giving Member comparable rights. Member will not be entitled to require MRI to disclose or grant to Member a like or similar variation.
- 10.6 National Vendor Programs. MRI may contract with national vendors for products and services for the Franchised Businesses. Member agrees to participate in National Vendor Programs unless it opts 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 agree to be included in the program. If you wish to cease participation in a National Vendor Program in which you are included, you must notify us no later than thirty (30) days prior to the expiration of the national vendor agreement. In the event that the contract with a national vendor requires us to make full payment of fees directly to the national vendor, Member agrees to make payment of its pro rata share, based on the number of participating members, to MRI. The time for making payment will be dependent on the terms of the national vendor agreement.

11 INSURANCE

- 11.1 Member 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. HQ MRI Corporation must be named as an additional insured on all policies other than those which only an employer may be named as an insured, such as Workman's Compensation insurance.
- 11.2 Insurance coverage must comply with the requirements of the Operations Materials, which may be amended in MRI's exercise of its business judgment and in MRI's sole discretion upon sixty (60) days written notice. These updates will be fully described in the online materials. The current coverage requirements include:
- 11.2.1 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 each occurrence and \$2,000,000 annual aggregate.
- 11.2.2 BUSINESS AUTOMOBILE LIABILITY including bodily injury and property damage liability for owned, leased, non-owned, and hired autos used in the Franchised Business in the amount of \$1,000,000 each accident.

- 11.2.3 WORKER'S COMPENSATION with the statutory minimum limits set by applicable law, unless the laws of Member's state do not require this coverage for sole proprietors and EMPLOYER'S LIABILITY in the amount of \$500,000 or statutory minimum limits, whichever is greater.
 - 11.2.4 PROPERTY including "all-risk" coverage on all real and personal property owned, leased or rented by Member as well as business income and extra expense coverage. This insurance shall be written for the replacement cost of Member's real and personal property and on an actual loss sustained basis for the business income and extra expense.
 - 11.2.5 ERRORS AND OMISSIONS in the amount of \$1,000,000 per claim and annual aggregate.
 - 11.2.6 EMPLOYMENT PRACTICES LIABILITY in the amount of \$1,000,000 per claim and annual aggregate. This insurance is required regardless of whether Member has employees or not.
 - 11.2.7 COMMERCIAL BLANKET EMPLOYEE DISHONESTY BOND, including coverage for any ERISA plans in the amount of \$100,000 or 10% of the ERISA plan assets, whichever is greater, if Member has employees.
 - 11.2.8 LICENSE BOND, if required by applicable law.
 - 11.2.9 UNEMPLOYMENT COMPENSATION with the statutory minimum limits set by applicable law unless the state law in Member's state does not require this for sole proprietors.
 - 11.2.10 Any and all other types and limits of insurance that may be required, from time to time, by MRI or applicable law.
- 11.3 The insurance policies must:
- 11.3.1 Contain no provision that in any way limits or reduces coverage for the Member below the aggregate limits provided in the policy in the event of a claim by any one or more of the Indemnitees;
 - 11.3.2 Waive any rights of recovery the insurance companies may have against MRI;
 - 11.3.3 Be primary to and without right of contribution from any other insurance purchased by or on behalf of MRI;
 - 11.3.4 Be in an amount and form satisfactory to MRI, but, in no event, in amounts less than stated above, nor shall this insurance have a deductible or self-insured retention in excess of \$10,000.00; and
- 11.4 Member shall not reduce the policy limits, restrict coverage, cancel or otherwise alter or amend these policies without MRI's prior written consent.

11.5 Certificate of Insurance. As proof of this required insurance, a Certificate of Insurance must be submitted by Member prior to Member's commencement of New Office Training and annually within ten (10) days of MRI's request.

11.6 If Member fails to obtain or maintain any required insurance for the benefit of MRI. MRI may obtain insurance for itself and Member shall reimburse MRI for the cost of such insurance within thirty calendar days after Member receives an invoice for insurance from MRI.

12 TRADEMARKS

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

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

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

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

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

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

12.4 Prohibited Uses. Member 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 Member under this Agreement and any Secondary Name approved in writing by Franchisor. Member 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. Member 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 Member whatsoever.

12.5 Notices. Member shall give such notices of trade and service mark registrations as Franchisor specifies. Member 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. Member shall immediately notify Franchisor of any apparent infringement of or challenge to Member's use of the Marks, or claim by any person of any rights in the Marks, and Member 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 10. Franchisor retains the exclusive right to control the prosecution, defense and settlement of all litigation, Patent and Trademark Office or other proceedings that in any way relate to any of the Marks.

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

12.8 Indemnification. So long as Member's use of the Marks complies with the terms of this Agreement, including, without limitation, this Section 10 and the Operations Materials, Franchisor shall indemnify Member against and reimburse Member for all damages for which Member is held liable in any proceeding arising from Member's use of the Marks and for all costs that Member reasonably incurs in defense of any such claim against Member or in any such proceeding in which Member is named as a party, provided (i) Franchisor receives notice of any such claim from Member within ten (10) days of Member'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 Member's full cooperation in such defense.

12.7.1 Member acknowledges that MRI has and retains these rights, among others:

12.7.1.1 To use the Marks itself in connection with selling products and services;

12.7.1.2 To grant other licenses for the Marks, in addition to those licenses already granted to existing members;

- 12.7.1.3 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 MRI 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
 - 12.7.1.4 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 Member.
- 12.8 MRI must approve member's domain names, URL's and electronic addresses if they contain any of the Marks. Member must cease use of domain names, URL's and electronic addresses which contain any 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 Member. Member understands and acknowledges that the rights and duties created by this Agreement are personal to Member or its owners and that Franchisor has entered into this Agreement in reliance upon the individual or collective character, skill, aptitude, attitude, business ability and financial capacity of Member or its owners. Therefore, except as hereinafter provided, neither Member'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 Member, 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. Any assignment or transfer without such approval shall constitute a breach of this Agreement and shall convey no rights or interest in the Franchised Business to such purported assignees or transferees. The only permissible methods of sale, transfer or assignment of the Franchised Business are those set forth in this Section.

13.3 Change of Business Form. Whether or not an assignment or transfer of the Franchised Business is involved, Member, 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 Member is at any time a corporation or limited liability company, then one or more transactions involving (i) issuance of any securities by Member, or (ii) the transfer of stock or voting power of Member, or (iii) any merger or consolidation involving Member, the effect of which shall result in Member's shareholders/members owning or controlling less than fifty-one percent (51%) of the aggregate voting securities of Member or otherwise losing the right to control the affairs of Member, shall be deemed to be an assignment of this Agreement within the meaning of this Section.

If Member 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.

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

If Franchisor does not exercise this option during such thirty (30) day period then Member may, during the following one hundred twenty (120) days, transfer the Franchised Business and assign this Agreement to the proposed assignee on the terms in the notice, provided that the assignment shall be made, without limitation, in compliance with this Section. 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.

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

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

(v) Each stock certificate of the transferee entity shall have conspicuously endorsed upon it a statement that it is held subject to, and that further assignment or transfer thereof is subject to, all restrictions imposed upon assignments and transfers by this Agreement;

(vi) No new shares of common or preferred voting stock in the transferee entity shall be issued to any person, partnership, trust, foundation, or corporation without obtaining Franchisor's prior written consent; and

(vii) All accrued money obligations of Member 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 of this Agreement, as consummated alone or together with other related previous, simultaneous, or proposed transfers, would have the effect of transferring control of the Franchised Business to someone other than an original signatory of this Agreement:

(i) The proposed assignee(s) or, if the proposed assignee is a corporation or limited liability company, its principal officers, shareholders, members, or directors, shall be of good moral character and demonstrate skills, qualifications and economic resources necessary in Franchisor's reasonable judgment, to operate the franchise that this Agreement contemplates and, in any event, at least equal to the Member's skills, qualifications and economic resources;

(ii) The proposed assignee(s) shall expressly assume in writing, for Franchisor's benefit, all Member's obligations under this Agreement;

(iii) The proposed assignee(s) shall have completed the training program and additional evaluation to Franchisor's sole subjective satisfaction, as described in Section 7;

(iv) As of the date of any such transfer, Member shall have fully satisfied all Member's obligations, including accrued money obligations, to Franchisor and Franchisor's Affiliates and assignees under this Agreement and any other agreement, arrangement or understanding;

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

(vi) Member 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 Franchised Business,

shall relieve Member, and as applicable, its shareholders or partners participating in any transfer, of the obligations of the covenants not to compete contained in Section 13.2 of this Agreement.

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

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

13.8 Any Transfer which occurs outside the manner described in this Section 13 is void.

14. RENEWAL

14.1 Successive Terms - Member's Option. Subject to the conditions of this Section, so long as the Member has fully complied with this Agreement and is in full compliance with this Agreement when the Initial Term expires, and contingent upon the Member's execution of general releases, in form satisfactory to Franchisor, of all claims against Franchisor and its officers, directors, employees and agents, Member shall have the option to enter into a Successive Agreement(s). The terms of the Successive Agreement(s), including, without limitation, the levels of Royalties and other fees payable by Member, 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 Member and provided that the levels of Royalties and other fees payable by Member 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 royalty percentage charged pursuant to this Agreement. Franchisor shall have the right to charge Member for services that Franchisor renders to Member or expenses that Franchisor incurs in connection with such Successive Agreement.

14.2. Successive Terms - Procedures.

14.2.1 Member's Responsibilities. Member 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. Member's failure to provide such written notice within the specified time limitations shall constitute Member'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.

14.2.2 Franchisor's Responsibilities. Upon receipt of Member's notice, Franchisor shall determine whether Member has fully complied with and is in full compliance with this Agreement to Franchisor's satisfaction. If so, Franchisor shall then deliver to Member (i) a form Successive Agreement; (ii) general release forms; and (iii) any ancillary agreements and documents then customarily used by Franchisor in the grant of franchises of the type described in this Agreement. Each of these agreements shall be modified, as necessary, to conform to Section 4.2 hereof.

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

14.3 Member Acknowledgment. Member acknowledges that the initial Term of this Agreement provides Member more than a sufficient opportunity to recoup Member's investment in the Franchise, as well as a reasonable return on such investment.

14.4 Notice Required by Law. If applicable law requires MRI to give notice to Member prior to the expiration of the Term, this Agreement will remain in effect on a month-to-month basis until MRI has given the notice required by such applicable law. If MRI is not offering new franchises, is in the process of revising, amending or renewing MRI's form of franchise agreement or franchise disclosure document, or MRI is not lawfully able to offer Member the then current form of Renewal Franchise Agreement at the time Member advises MRI pursuant to Section 14.2 above that Member desires to renew, MRI may, in MRI's sole discretion, (i) offer to renew this Agreement upon the same terms set forth herein for the appropriate renewal term or (ii) offer to extend the Term hereof on a month-to-month basis following the expiration of the Term for as long as MRI deems necessary or appropriate so that MRI may lawfully offer the then current form of Renewal Franchise Agreement. Any timeframes specified in this Article 5 will be inclusive of any state mandated notice periods.

- 14.5 Additional Reservation of Rights. MRI 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 Member's business is located. In the event we withdraw, Franchise will be allowed to continue to operate a competitive business and will be granted sixty (60) days to cease use of the Marks.

15 RESTRICTIVE COVENANTS

15.4 In-Term Covenant.

- 15.4.1 During the Term of this Agreement, Member and any Principal(s) of the Franchised Business will not divert or attempt to divert any business, customer, or client of the Franchised Business or of other members in the System to any competitor in the Staffing placement industry, by direct or indirect inducement or otherwise participate as an owner, partner, director, officer, employee, consultant, or agent or serve in any other capacity in the staffing placement industry or any other business substantially similar to the business conducted by members of the System. Notwithstanding anything to the contrary contained above, Member may engage in interoffice referrals with staffing professionals outside the MRINetwork.

15.5 Post-Termination Covenant

- 15.5.1 Within fifty (50) miles of any MRINetwork franchise location and for a period of twenty-four (24) months after the expiration or termination of this Agreement, for any reason, Member and any Principal(s) of the Franchised Business will not divert or attempt to divert any business, customer, or client of the Franchised Business or of other members in the System to any competitor of the MRINetwork in the Staffing placement industry, by direct or indirect inducement or otherwise. During this restricted period, Member and its Principal(s) will not, directly or indirectly, engage in, have a financial interest in, license its Secondary Name, if any, to, or be associated in any manner with, any business that engages in any aspect of the staffing placement industry, or any other business in which MRI or any of affiliates or members may be engaged, specifically including but not limited to serving as or becoming a principal, agent, director, stockholder, officer, investor, manager, trustee, representative, employee, account executive, counselor, consultant, trainer, or field operations person for a business that competes with MRINetwork in the staffing placement industry.

- 15.5.2 If the period of time or the geographic scope specified above, should be adjudged unreasonable in any proceeding, then the period of time will be reduced by such number of months or the geographic scope will be reduced by the elimination of such portion thereof, or both, so that such restrictions may be enforced for such time and scope as are adjudged to be reasonable.

- 15.6 "Staffing placement industry" are businesses operated under NAICS codes 561311 (Employment Placement Agencies), 561312 (Executive Search Services), and/or 561320 (Temporary Help Services).

- 15.7 The time periods described in this Section 15 shall be stayed during any violation or breach of the terms contained in it. The covenants in this Section 15 survive the termination, cancellation or expiration of this Agreement. Further, the covenants are severable and contain different restrictions that will be enforced simultaneously as provided by applicable law. If any provision of this Section 15 is found to be unenforceable, it will be amended only to the extent necessary to make it enforceable under applicable law.
- 15.8 Member acknowledges and agrees that the restrictions in this Section 15 are reasonable and necessary to protect MRI and the Marks. These restrictions are also required to protect MRI's existing members' businesses.
- 15.9 Member agrees that the issuance of an injunction enjoining any violation of the terms of this Section 15 is an appropriate and proper relief for a violation. MRI may seek any other relief or remedy available to it under law, in addition to injunctive relief.

16 DEFAULT AND TERMINATION

16.1 Termination with Opportunity to Cure. Except as provided in Section 16.2, when Member receives written notice from Franchisor that Member has failed to comply with the terms of this Agreement, Member 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 Member's receipt of notice of such breach, Franchisor may terminate this Agreement upon written notice to Member of such termination, effective on the expiration of the cure period.

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

(i) Member is declared bankrupt or judicially determined to be insolvent, or all or a substantial part of the assets of Member or the Franchised Business are assigned to or for the benefit of any creditor, or Member admits his inability to pay Member's debts as they come due;

(ii) Member abandons the Franchised Business by failing to operate for five (5) consecutive days during which Member is required to operate the Franchised Business under this Agreement's terms, or any shorter period after which it is not unreasonable under the facts and circumstances for Franchisor to conclude that Member does not intend to continue to operate the Franchised Business;

(iii) Member has made any material misrepresentation relating to acquisition of the Franchised Business;

(iv) Member engages in conduct that, in Franchisor's sole determination, materially and unfavorably reflects upon the operation and reputation of the Franchised Business or the MRI System;

(v) Member fails for a period of ten (10) days or such longer period as applicable laws may require, after notification of noncompliance, to comply with any federal, state or local law or regulation applicable to operation of the Franchised Business;

(vi) After curing any failure described in Section 16.1 Member engages in the same noncompliance, regardless of whether such noncompliance is corrected after notice;

(vii) Member repeatedly fails to comply with one (1) or more requirements of this Agreement regardless of whether corrected after notice;

(viii) The Franchised Business is seized, taken over or foreclosed by a government official in the exercise of such official's duties, or seized, taken over, or foreclosed by a creditor, lien holder or lessor, provided that a final judgment against Member remains unsatisfied for thirty (30) days, unless a supersedes or other appeal bond has been filed;

(ix) a levy of execution is made upon the Franchised Business or upon any property used in the Franchised Business and is not discharged within five (5) days after such levy;

(x) Member is convicted of, or pleads guilty or no contest to, any crime punishable as a felony or involving moral turpitude or immoral conduct;

(xi) Member attempts to transfer the Franchised Business or make an assignment of this Agreement in violation of this Agreement;

(xii) In the event of death or incapacity, the surviving spouse, heirs, beneficiaries, devisees, or legal representatives fail to comply with the provisions of Section 13;

(xiii) Member discloses attempts or threatens to disclose any of the Trade Secrets in violation of this Agreement;

(xiv) Member willfully and knowingly employs temporary employees in classifications of business which are specifically prohibited by Franchisor or otherwise does not adhere to the risk management policies of Franchisor;

(xv) Member fails to disclose to Franchisor the existence of a non-compete restriction applicable to Member; or

(xvi) Member or, if applicable, its shareholders, officers, directors or partners, directly or indirectly, engage in or perform services for or hold an ownership interest in

any business engaged in recruiting, search, placement, 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 Members.

16.3 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 Member as a result of any breach or default by Member of any provision of this Agreement.

16.4 Termination by Member. Member understands and acknowledges that Member is obligated by this Agreement to operate the Franchised Business as set forth herein for the duration of the Initial Term, and any attempt by Member to terminate this Agreement prior to the expiration of such Initial Term shall be deemed to be a material breach of this Agreement and shall be grounds, at Franchisor's sole determination, for termination by Franchisor pursuant to Section 16.2.II.

16.5 Buy-Out Termination. Commencing on January 1st of the last full calendar year of the Initial Term under this Agreement, Member may terminate this Agreement and Franchisor will waive the competitive restrictions imposed by Section 15 on the following conditions:

(i) Member must send Franchisor written notice ("Notice") six (6) months prior to the date of the proposed buy-out;

(ii) Member must pay Franchisor a buy-out price equal to fifteen percent (15%) of the Gross Billings of the Franchised Business during the immediately preceding twelve (12) calendar months;

(iii) The Notice must include a cash deposit of one-third (1/3) of the amount due Franchisor for the buy-out, along with a promissory note ("Note") for the balance upon such terms and on such forms as Franchisor prescribes, and Franchisor's standard form of mutual termination agreement utilized in this context;

(iv) Interest on the Note accrues from the date Franchisor receives the Notice;

(v) If, after sending such Notice to Franchisor, Member does not consummate the transaction, Franchisor may either:

(1) Retain fifty percent (50%) of the deposit paid with Member's notice as liquidated damages and keep this Agreement in force; or

(2) Purchase the Franchised Business, retain the deposit, and return the Note.

Member's option to terminate this Agreement through this buy-out procedure automatically ceases if Franchisor grants Member a successor franchise. Any buy-out option at that time will be governed by the terms of the successor franchise agreement. If Member exercises and fully complies with the buy-out procedures described in this Section, Franchisor will waive the post-termination competitive restrictions described in this Agreement; however, Member will remain responsible for compliance with all of the other post-termination obligations described in this Agreement. If Member (or one of Member's principal owners) owns or has a controlling interest in one or more Franchised Businesses, Member may only exercise its rights to buy out this Agreement if Member (or such principal owner) also exercises such termination rights with respect to all Franchised Businesses in which Member or such principal owner holds equity interest.

17. POST TERMINATION OBLIGATIONS

- 17.1 Member's Obligations. Upon termination or expiration of this Agreement, all rights and licenses granted hereunder to Member will immediately terminate and Member and any Principal(s) shall:
- 17.1.1 Immediately cease to operate the Franchised Business and not, directly or indirectly, identify as a current or former MRINetwork owner, member or licensee;
 - 17.1.2 Immediately and permanently cease to use the Marks, the Secondary Name, any imitation of the Marks or other indicia of a MRINetwork Franchised Business, or use any trade name, trade or service mark, or other commercial symbol that suggests and association with MRI or the System.
 - 17.1.3 Take such action as may be necessary to cancel any assumed name or equivalent registration that contains the Mark or any other service mark or trademark of MRI, and Member shall furnish MRI with evidence of compliance with this obligation, which is satisfactory to MRI, within five (5) days after termination or expiration of this Agreement;
 - 17.1.4 Make payment of all sums owed to MRI and its affiliates within five (5) days of termination.
 - 17.1.5 Pay to MRI all damages, costs and expenses, and reasonable attorneys' fees, incurred by MRI in connection with obtaining any remedy available to MRI for any violation of this Agreement, and subsequent to the termination or expiration of this Agreement, in obtaining injunctive or other relief for the enforcement of any provision of this Agreement that survives termination.

- 17.1.6 Immediately cease use of any domain names or URLs used in the Franchised Business and take all steps required by MRI to transfer any domain names or URLs to MRI;
- 17.1.7 Take all steps necessary to transfer any telephone numbers used in the Franchised Business to MRI or cancel such telephone numbers used for the Franchised Business.
- 17.1.8 Take reasonable steps to remove Internet postings containing the Marks or Secondary Name;
- 17.1.9 Immediately destroy any and all tangible copies of the Operations Materials, Trade Secrets, and materials containing any Confidential Information related to the Franchised Business (all of which are acknowledged to be MRI's property) and retain no copy or record of any of the foregoing, except Member's copy of this Agreement and any amendments thereto, and any correspondence between the parties and any other documents that Member reasonably needs for compliance with any provision of the law. Member must submit a certified notice of destruction confirming that all materials have been destroyed to MRI within fifteen (15) days of termination.
- 17.1.10 Continue to make, so as to be received by MRI by the fifth (5th) day of each of the succeeding months, the reports provided for in Section 6 of this Agreement and continue to make payments of the royalty and MPR fees at the rates specified in Section 5 of this Agreement, for any placements that were made or services provided by Member during the term of this Agreement but for which payment to Member was made after the termination of this Agreement.

18. INDEMNIFICATION. Member shall defend, indemnify and hold Franchisor, and Franchisor's parents, subsidiaries, affiliates, insurers, shareholders, directors, officers, employees, agents, attorneys, successors in interest and assignees harmless against any loss, damage or expense (including attorneys' fees) or liability for any Claims that arise from or in connection with the Franchised Business or from the acts, omissions or agreements of Member or any of its officers, directors, employees or agents; or for any Claims arising from any circumstances in which Member fails to adhere to the requirements and guidelines for the Franchised Business; or for any enforcement action by the U.S. Immigration and Customs Enforcement agency or the U.S. Equal Employment Opportunity Commission. Franchisor shall have the right to defend any Claim against Franchisor at Member'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 Member's business, which relate to Member's non-compliance with or violation of federal or state employment laws, national or local immigration laws, or laws pertaining to Homeland Security. If legislation enacted by or regulation of any governmental body prevents Member from conducting business pursuant to this Agreement, MRI shall not be held liable for damages or be required to indemnify Member in any manner whatsoever or to return any monies received from Member.

19. CONFIDENTIALITY AND TRADE SECRETS

19.1 Trade Secrets. Member 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, Member 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.

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

- (i) Not use the Trade Secrets in any business or other endeavor other than in connection with the Franchised Business;
- (ii) Maintain absolute confidentiality of the Trade Secrets during and after this Agreement's term;
- (iii) make no unauthorized copy of any portion of the Trade Secrets, including, without limitation, the Operations Materials, bulletins, supplements, forms such as customer applications and applications for temporary personnel, confidential correspondence, or other confidential communications, whether written or oral; and
- (iv) Implement, maintain, and diligently utilize all reasonable procedures prescribed from time to time by Franchisor to prevent unauthorized use and disclosure of the Trade Secrets, including, without limitation, restrictions on disclosure to employees and use of nondisclosure and non-competition provisions as Franchisor prescribes in employment agreements with employees who may have access to the Trade Secrets. Promptly upon Franchisor's request, Member shall deliver executed copies of such agreements to Franchisor.

19.3 Member shall require all its employees, contractors, agents, representatives, or any other person with whom it discloses any Confidential Information ("Disclosed Person") to sign a Confidentiality and Non-Compete Agreement identical to Exhibit A attached hereto, except that Member may remove, in its sole discretion, Section 2 of the Confidentiality and Non-Compete Agreement, the "covenant not to compete" for any or all Disclosed Persons.

19.4 Member agrees that the issuance of an injunction enjoining any violation of terms of this Section and/or compelling compliance with such terms is appropriate and proper relief for any such violation.

20. DISPUTE RESOLUTION

20.1 Dispute Resolution. If a dispute arises from or relates to this Agreement or the breach thereof, and if the dispute cannot be settled through direct discussions, the parties agree that any unresolved controversy or claim arising out of or relating to this Agreement, or breach thereof, shall be settled by arbitration administered by the American Arbitration Association in accordance with its Commercial Arbitration Rules and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. THIS SECTION SHALL NOT APPLY TO DISPUTES ARISING OUT OF FRANCHISEE'S FAILURE TO PAY ROYALTIES OR OTHER FEES, CONVERSION OR MISAPPROPRIATION OF MONIES OWED TO FRANCHISOR, TRADEMARK OR TRADE SECRET MISUSE OR INFRINGEMENT, OR VIOLATION OF THE RESTRICTIVE COVENANTS CONTAINED WITHIN THIS AGREEMENT. NOTHING IN THIS SECTION SHALL RESTRICT FRANCHISOR'S RIGHT TO SEEK INJUNCTIVE RELIEF AS PROVIDED IN THIS AGREEMENT.

20.2 Claims shall be heard by a single arbitrator who shall be selected via mutual agreement of the parties. The place of arbitration shall be Berkeley County, SC. The arbitration shall be governed by the laws of the State of South Carolina.

20.3 The award shall be made within 4 months of the filing of the notice of intention to arbitrate (demand), and the arbitrator shall agree to comply with this schedule before accepting appointment. However, this time limit may be extended by the arbitrator for good cause shown, or by mutual agreement of the parties.

20.4 The arbitrators will have no authority to award punitive or other damages not measured by the prevailing party's actual damages, except as may be required by statute. The arbitrator shall not award consequential damages in any arbitration initiated under this section.

20.5 Each party shall bear its own costs and expenses (including attorney's fees) and an equal share of the arbitrators and administrative fees of arbitration.

20.6 Except as may be required by law, neither a party nor an arbitrator may disclose the existence, content, or results of any arbitration hereunder without the prior written consent of both parties.

20.7 Notwithstanding any language to the contrary in the contract documents, the parties hereby agree: that the Underlying Award may be appealed pursuant to the AAA's Optional Appellate Arbitration Rules ("Appellate Rules"); that the Underlying Award rendered by the arbitrator(s) shall, at

a minimum, be a _____ reasoned award; and that the Underlying Award shall not be considered final until _____ after the time for filing the notice of appeal pursuant to the Appellate Rules has expired. Appeals must be initiated within thirty (30) days of receipt of an

Underlying Award, as defined by Rule A-3 of the Appellate Rules, by filing a Notice of Appeal with any AAA office. Following the appeal process the decision rendered by the appeal tribunal may be entered in any court having jurisdiction thereof.

20.2 **LIMITATION OF PARTIES.** ANY AND ALL CLAIMS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE RELATIONSHIP AMONG THE PARTIES MUST BE CONDUCTED ON AN INDIVIDUAL, AND NOT A CLASS-WIDE OR MULTIPLE PLAINTIFFS, BASIS. THE PARTIES MAY ONLY SEEK DAMAGES OR ANY REMEDY UNDER LAW OR EQUITY FOR ANY CLAIM AGAINST EACH OTHER OR THEIR SUCCESSORS, ASSIGNS OR GUARANTORS ARISING OUT OF OR RELATING TO THE AGREEMENT OR THE RELATIONSHIPS OF THE PARTIES. THE PARTIES AGREE THAT PRINCIPALS, AFFILIATES, SHAREHOLDERS, MEMBERS, DIRECTORS, OFFICERS, EMPLOYEES, AGENTS AND REPRESENTATIVES, UNLESS SUBJECT TO A PERSONAL GUARANTY, WILL NOT BE PERSONALLY LIABLE OR NAMED AS A PARTY IN ANY LITIGATION PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE RELATIONSHIP AMONG THE PARTIES. IN THE EVENT A NON-PARTY IS NAMED IN ANY ACTION, THE PARTIES AGREE HEREIN THAT ANY CLAIMS AGAINST THAT PARTY WILL BE DISMISSED WITH PREJUDICE UPON A MOTION TO DISMISS.

20.3 Survival. The provisions of this Section will continue in full force and effect notwithstanding the expiration or termination of this Agreement or a transfer by Member or any Principal of their respective interests in this Agreement.

20.4 Modification. The provisions of Section are independent of any other covenant or provision of this Agreement, provided however that in the event any court of competent jurisdiction finds any provision in this Section to be unlawful in any way, this Section may be modified only to the extent necessary to have them comply with the law.

20.5 Injunctive Relief. Nothing in this Agreement shall prevent Franchisor 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.

21 INDEPENDENT CONTRACTOR

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

Member 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 Member. Franchisor agrees that it has, and shall exercise, no direct, indirect, or potential control over any such employees' terms of employment, including, but not limited to:

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

If Franchisor and Member are found to be joint employers of any of Member's employees, and they lawfully form a collective bargaining unit (a "Bargaining Unit"), Member 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. Member further agrees to assume the risk of, and sole responsibility for, and agree to indemnify Franchisor, its directors, employees, agents, affiliates and insurers from and against any and all expenses, costs, liabilities, and causes of action resulting from, related to or arising out of Member's employment of its employees.

Member agrees not to incur or contract any debt or obligation on behalf of MRI or commit any act, make any representation or advertise in any manner which may adversely affect any right of MRI or be detrimental to MRI or other MRINetwork members. Pursuant to the above, Member agrees to indemnify MRI and hold MRI harmless from any and all liability, loss, attorneys' fees, or damage MRI may suffer as a result of claims, demands, taxes, costs or judgments against MRI arising out of the relationship hereby established which specifically, but not exclusively, includes costs, losses, expenses, attorneys' fees, relative to assignment or the transfer of right to franchise and transactional cost relative thereto, defaults under any leases, subleases, notes, receipt of revenues or any other relationships arising directly or indirectly out of the operation of the Franchised Business.

22. GENERAL

- 22.1 Successors. This Agreement binds and inures to the benefit of the successors and assigns of MRI and is personally binding on an inures to the benefit of Member (including the individuals executing this Agreement on behalf of the corporation if Member is an entity) and its or their respective heirs, executors, administrators, and successors or assigns; provided, however, the foregoing provision will not be construed to allow a transfer of any interest of Member or Principals, if any, in this Agreement or the Franchised Business, except in accordance with Section 13 of this Agreement.
- 22.2 Invalidity of Part of the Agreement/Severability. Should any provision of this Agreement, for any reason, be declared by a court of competent jurisdiction to be invalid, then such provision will be amended only to the extent necessary to make the provision valid. If this cannot be achieved, then the provision will be invalid only to the extent of the prohibition without in any way invalidating or altering any other provision of this Agreement. The parties agree that each provision of this Agreement is an inducement to enter into this contract and each intends all provisions to be valid.
- 22.3 Notices. All notices permitted or required by this Agreement will be in writing and deemed delivered when sent by facsimile, electronic mail, or when delivered by hand, or three (3) days after being placed in the US mail, or one (1) day after being left with an overnight commercial courier delivery service.
- 22.3.1 Notice to MRI will be addressed to its then principal place of business or via email to MRI's Legal Department.
- 22.3.2 Notice to Member will be addressed to its then principal place of business, or Member's residence address as such address is provided by Member to MRI then currently listed on its records. Member is responsible for providing MRI with its current address and MRI will not be responsible for failure of delivery caused by Member's failure to provide its updated address and email, or for refusal of delivery.

- 22.4 Consent. Whenever the consent or approval of MRI is required, the consent or approval will not be unreasonably withheld, unless the consent or approval is expressly vested in the business judgment of MRI.
- 22.5 Time of the Essence. In construing and applying the terms and provisions of this Agreement, time is of the essence in each instance.
- 22.6 Construction. All terms and words used in this Agreement, regardless of the number and gender in which they are used, are deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context or sense of this Agreement or any provision herein may require, as if such words had been fully and properly written in the appropriate number and gender. All covenants, agreements and obligations assumed herein by Member and any Principals are deemed to be joint and several covenants, agreements and obligations of each of the persons named as Member, if more than one person is so named.
- 22.7 **GOVERNING LAW; SUBMISSION TO JURISDICTION. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF SOUTH CAROLINA WITHOUT GIVING EFFECT TO ANY CHOICE OR CONFLICT OF LAW PROVISION OR RULE. ANY ACTION, SUIT, OR PROCEEDING ARISING OUT OF OR BASED UPON THIS AGREEMENT MAY BE INSTITUTED IN THE STATE COURT FOR SOUTH CAROLINA LOCATED IN CHARLESTON OR BERKELEY COUNTIES ONLY, AND EACH PARTY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF SUCH COURT IN ANY SUCH SUIT, ACTION, OR PROCEEDING. THE PARTIES IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY OBJECTION TO THE LAYING OF VENUE OF ANY SUIT, ACTION, OR ANY PROCEEDING IN SUCH COURT AND IRREVOCABLY WAIVE AND AGREE NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH SUIT, ACTION, OR PROCEEDING BROUGHT IN SUCH COURT HAS BEEN BROUGHT IN AN inconvenient forum.**
- 22.8 Captions. Captions and section headings are used herein for convenience only. They are not part of this Agreement and will not be used in construing it.
- 22.9 Effect of Waivers or Modifications. Any modification or waiver of any of the provisions of this Agreement will be effective only if made in writing and executed with the same formality as this Agreement. This limitation of modification and waiver is not subject to oral rescission. No waiver, delay, omission, or forbearance on the part of MRI to exercise any right, option,

duty, or power arising from any default or breach by Member affects or impairs the rights of these parties with respect to any subsequent default of the same or of a different kind.

- 22.10 Remedies Cumulative. All rights and remedies of the parties to this Agreement are cumulative and not alternative, in addition to and not exclusive of any other rights or remedies that are provided for in this Agreement or that may be available at law or in equity in case of any breach, failure or default or threatened breach, failure or default of any term, provision or condition of this Agreement or any other agreement between Member or any of its affiliates and Franchisor or any of its affiliates. The rights and remedies of the parties to this Agreement are continuing and not be exhausted by any one or more uses thereof and may be exercised at any time or from time to time as often as may be expedient; and any option or election to enforce any such right or remedy may be exercised or taken at any time and from time to time. The expiration, earlier termination or exercise of Franchisor's rights pursuant to Article 16 do not discharge or release Member or any Principal from any liability or obligation then accrued, or any liability or obligation continuing beyond, or arising out of, the expiration, the earlier termination or the exercise of such rights under this Agreement.
- 22.11 Counterparts. This Agreement may be executed in multiple counterparts, each of which when so executed are an original, and all of which constitute one and the same instrument.
- 22.12 Electronic Signatures. This Agreement may be executed electronically, and an electronic signature will have the full force and effect as if it were signed by hand.
- 22.13 Entire Agreement. This Agreement, including all attachments, is the entire agreement of the parties, superseding all prior written or oral agreements of the parties concerning the same subject matter. Nothing contained in this Agreement or any related agreement is intended to disclaim the representations made by MRI in the Franchise Disclosure Document. No agreement of any kind relating to the matters covered by this Agreement and no amendment of the provisions of this Agreement is binding upon either party unless and until the same has been made in writing and executed by all interested parties.

LEFT BLANK INTENTIONALLY

The parties have executed this Franchise Agreement to evidence their agreement to its terms.

MEMBER1

Member1, Individually

Date: _____

MEMBER2

Member2, Individually

Date: _____

HQ MRI CORPORATION

By _____
Nancy Halverson, SVP MRI

Date: _____

**SCHEDULE 1 TO FRANCHISE AGREEMENT
Term Sheet**

Effective Date:

Franchise Number: 9999-1

Brand Name:

Secondary Name:

Location:

Term:

Renewal Notice Period:

Expiration Date:

All terms on this Schedule 1 to Franchise Agreement, Term Sheet, are binding upon the Parties to the Franchise Agreement and incorporated therein.

HQ MRI CORPORATION

MEMBER1

By: _____

Member1, Individually

Date: _____

Date: _____

MEMBER2

Member2, Individually

Date: _____

SCHEDULE 2 TO FRANCHISE AGREEMENT

Statement of Ownership Interests in Franchise

Name

Percentage of Ownership

HQ MRI CORPORATION

MEMBER1

By: _____

Member1, Individually

Date: _____

Date: _____

MEMBER2

Member2, Individually

Date: _____

EXHIBIT A: CONFIDENTIALITY AND NON-COMPETE AGREEMENT

CONFIDENTIALITY AND NON-COMPETE AGREEMENT

This Confidentiality and Non-Compete Agreement (the “Agreement”) is made and entered into on the last date entered below, by and among HQ MRI Corporation (“MRI”), Member1 and Member2 (“Member”), and Member1 and Member2 (“Covenantor”) in connection with a Franchise Agreement dated _____ between MRI and Member (the “Franchise Agreement”).

WHEREAS, MRI has the right to use and license the use of certain marks and tradenames, including, the service mark “MRI” and design, and certain proprietary products, services, promotions and methods (the “System”) for the establishment and operation of a MRINetwork Franchised Business;

WHEREAS, MRI has granted Member the right to operate a MRINetwork Franchised Business pursuant to the System at a Location, as defined in the Franchise Agreement (the “Location”), in strict accordance with the terms and conditions of the Franchise Agreement;

WHEREAS, in connection with his or her duties, it will be necessary for Covenantor to have access to some or all of the confidential information, knowledge, know-how, techniques, contents of the MRINetwork materials used in or related to the System and/or concerning the methods of operation of the System (collectively referred to as “Confidential Information”);

WHEREAS, the Confidential Information provides economic advantages to MRI and licensed users of the System;

WHEREAS, MRI and Member have agreed on the importance of restricting the use, access and dissemination of the Confidential Information, and Member has agreed to obtain from Covenantor a written agreement protecting the Confidential Information and further protecting the System against unfair competition; and

WHEREAS, Covenantor acknowledges that receipt of and the right to use the Confidential Information constitutes independent valuable consideration for the representations, promises and covenants made by Covenantor herein.

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein, the parties agree as follows:

- 1. **Confidentiality Agreement.**
 - a. Covenantor shall, at all times, maintain the confidentiality of the Confidential Information and shall use such Confidential Information only in the course of his or her employment by or association with Member in connection with the operation of a MRINetwork Franchised Business under the Franchise Agreement.

- b. Covenantor shall not at any time make copies of any documents or compilations containing some or all of the Confidential Information without MRI's express written permission.
- c. Covenantor shall not at any time disclose or permit the disclosure of the Confidential Information except, and only then to the limited extent necessary, to those employees of Member for training and assisting such employees in the operation of the MRINetwork Franchised Business.
- d. Covenantor shall surrender any material containing some or all of the Confidential Information to Member or MRI, upon request, or upon termination of employment or association with Member.
- e. Covenantor shall not at any time, directly or indirectly, do any act or omit to do any act that would or would likely be injurious or prejudicial to the goodwill associated with the System.
- f. Covenantor agrees that no Confidential Information may be reproduced, in whole or in part, without MRI's written consent.

2. Covenants Not to Compete.

- a. In order to protect the goodwill and unique qualities of the System, and in consideration for the disclosure to Covenantor of the Confidential Information, Covenantor further agrees and covenants that during Covenantor's employment or association with Member, Covenantor shall not, for Covenantor or through, on behalf of or in conjunction with any person or entity:
 - (i) divert, or attempt to divert, any business or customer of the MRINetwork Franchised Business or of other members in the System to any competitor in the staffing placement industry, by direct or indirect inducement or otherwise, or
 - (ii) participate as an owner, partner, director, officer, employee, consultant or agent or serve in any other capacity in any staffing placement industry business substantially similar to the System.
- b. In further consideration for the disclosure to Covenantor of the Confidential Information and to protect the goodwill and unique qualities of the System, Covenantor further agrees and covenants that, upon the termination of Covenantor's employment or association with Member and continuing for twenty-four (24) months, Covenantor shall not, for Covenantor or through, on behalf of or in conjunction with any person or entity:
 - (i) divert, or attempt to divert, any business or customer of the MRINetwork Franchised Business to any competitor in the staffing placement industry, by direct or indirect inducement or otherwise, or
 - (ii) participate as an owner, partner, director, officer, employee, or consultant or serve in any other managerial, operational or supervisory capacity in any staffing placement industry business within fifty (50) miles of any MRINetwork Franchised Business.

- c. The parties acknowledge and agree that each of the covenants contained herein are reasonable limitations as to time, geographical area, and scope of activity to be restrained and do not impose a greater restraint than is necessary to protect the goodwill or other business interests of MRI and its members.

“Staffing placement industry” are businesses operated under NAICS codes 561311 (Employment Placement Agencies), 561312 (Executive Search Services), and/or 561320 (Temporary Help Services).

If the period of time or the geographic scope specified Section 2.b. above, should be adjudged unreasonable in any proceeding, then the period of time will be reduced by such number of months or the geographic scope will be reduced by the elimination of such portion thereof, or both, so that such restrictions may be enforced for such time and scope as are adjudged to be reasonable.

3. **General.**

- a. Member shall make all commercially reasonable efforts to ensure that Covenantor acts as required by this Agreement.
- b. Covenantor agrees that in the event of a breach of this Agreement, MRI would be irreparably injured and be without an adequate remedy at law. Therefore, in the event of such a breach, or threatened or attempted breach of any of the provisions hereof, MRI is entitled to enforce the provisions of this Agreement and is entitled, in addition to any other remedies that are made available to it at law or in equity, to a temporary and/or permanent injunction and a decree for the specific performance of the terms of this Agreement, without the necessity of showing actual or threatened harm and without being required to furnish a bond or other security.
- c. Covenantor agrees to pay all expenses (including court costs and reasonable attorneys’ fees) incurred by MRI and/or Member in enforcing this Agreement.
- d. Any failure by MRI or the Member to object to or take action with respect to any breach of any provision of this Agreement by Covenantor will not operate or be construed as a waiver of or consent to that breach or any subsequent breach by Covenantor.
- e. This agreement is interpreted by and construed and enforced in accordance with the laws of the State of South Carolina, without reference to Florida choice of law principles.
- f. **COVENANTOR HEREBY IRREVOCABLY SUBMITS HIMSELF OR HERSELF TO THE JURISDICTION OF THE COURTS OF BERKELEY COUNTY, SOUTH CAROLINA AND THE FEDERAL DISTRICT COURTS FOR THE DISTRICT OF SOUTH CAROLINA. COVENANTOR HEREBY WAIVES ALL QUESTIONS OF PERSONAL JURISDICTION OR VENUE FOR THE PURPOSE OF CARRYING OUT THIS PROVISION. COVENANTOR HEREBY AGREES THAT SERVICE OF PROCESS MAY BE MADE UPON COVENANTOR IN ANY PROCEEDING RELATING TO OR ARISING UNDER THIS AGREEMENT OR THE RELATIONSHIP CREATED BY THIS AGREEMENT BY ANY MEANS ALLOWED BY FLORIDA OR FEDERAL LAW. COVENANTOR FURTHER AGREES THAT VENUE FOR ANY PROCEEDING RELATING TO OR ARISING OUT OF THIS AGREEMENT IS BERKELEY**

COUNTY, SOUTH CAROLINA; PROVIDED, HOWEVER, WITH RESPECT TO ANY ACTION THAT INCLUDES INJUNCTIVE RELIEF OR OTHER EXTRAORDINARY RELIEF, MRI MAY BRING SUCH ACTION IN ANY COURT IN ANY STATE THAT HAS JURISDICTION.

- g. The parties agree that each of the foregoing covenants contained in this Agreement are construed as independent of any other covenant or provision of this Agreement.
- h. Covenantor acknowledges and agrees that each of the covenants contained herein will not impose any undue hardship on Covenantor since Covenantor has other considerable skills, experience and education which affords Covenantor the opportunity to derive income from other endeavors.
- i. This Agreement contains the entire agreement of the parties regarding the subject matter hereof. This Agreement may be modified only by a duly authorized writing executed by all parties.
- j. All notices and demands required to be given hereunder shall be in writing and deemed delivered when sent by facsimile, electronic mail, or when delivered by hand, or three (3) days after being placed in the US mail, or one (1) day after being left with an overnight commercial courier delivery service. Notice to MRI and/or Member will be addressed to its then principal place of business or via electronic mail at its most recently reported electronic mail address.
- k. The rights and remedies of MRI under this Agreement are fully assignable and transferable and shall inure to the benefit of its respective affiliates, successors and assigns. The respective obligations of Member and Covenantor hereunder may not be assigned by Member or Covenantor, without the prior written consent of MRI.

IN WITNESS WHEREOF, the undersigned have entered into this Confidentiality and Non-Compete Agreement as witnessed by their signatures below.

HQ MRI CORPORATION

MEMBER AND COVENANTOR: MEMBER1

By: _____

Member1, Individually

Date: _____

Date: _____

MEMBER AND COVENANTOR: MEMBER2

Member2, Individually

Date: _____

EXHIBIT B: MEMBER’S PERSONAL GUARANTY (TO BE SIGNED IF MEMBER IS AN ENTITY ONLY)

MEMBER’S PERSONAL GUARANTY

This Member’s Principal Guaranty and Covenant (this “Guaranty”) is given by each of the undersigned (each a “Guarantor”) on the last date entered below to HQ MRI Corporation (“MRI”), in order to induce MRI to enter into that certain Franchise Agreement dated _____ (the “Franchise Agreement”) with Member1 and Member2, (“Member”).

Whereas, MRI and Member have entered into a Franchise Agreement for the operation of a MRINetwork Franchised Business; and

Whereas, Guarantor is a Principal of the Member;

The Guarantor agrees as follows:

Guarantor acknowledges that Guarantor is included in the term “Principal” as described in Section 9.2 of the Franchise Agreement.

Guarantor acknowledges that Guarantor has read the terms and conditions of the Franchise Agreement and acknowledges that the execution of this Guaranty and the undertakings of the Principal herein and in the Franchise Agreement are in partial consideration for, and a condition to the granting of, the rights granted in the Franchise Agreement, and that MRI would not have granted these rights without the execution of this Guaranty by Guarantor.

Guarantor hereby individually makes, agrees to be bound by, and agrees to perform, all of the covenants, representations, warranties and agreements of the Member as set forth in the Franchise Agreement.

Guarantor does hereby guaranty to MRI the prompt payment and performance when due of any and all liabilities and obligations arising under or evidenced by the Franchise Agreement, any promissory note or other credit instruments, and any other liabilities, obligations and indebtedness of Member and/or any of its assignees or affiliates to MRI and/or any of its assignees or affiliates, of every kind and description, now existing or hereafter incurred or arising, matured or unmatured, direct or indirect, absolute or contingent, due or to become due, and any renewals, consolidations and extensions, including any future advances from MRI to Member (collectively, the “Guaranteed Obligations”). Guarantor shall perform and/or make punctual payment to MRI of the Guaranteed Obligations in accordance with the terms of the Franchise Agreement or other applicable document forthwith upon demand by MRI.

This Guaranty is irrevocable and unlimited. This Guaranty is an absolute and unconditional continuing guaranty of payment and performance of the Guaranteed Obligations. This Guaranty is not discharged by renewal of any claims guaranteed by this instrument, the suffering of any indulgence to any debtor, extension of time of payment thereof, nor the discharge of Member by bankruptcy, operation of law or otherwise. Presentment, demand, protest, notice of protest and dishonor, notice of default or nonpayment and diligence in collecting any obligation under any agreement between Member and MRI are each and all

waived by Guarantor and/or acknowledged as inapplicable. MRI is not required to pursue any remedy on said Guaranteed Obligations as a condition of the obligation hereunder of Guarantor. Guarantor waives notice of amendment of any agreement between Member and MRI and notice of demand for payment by Member. Guarantor further agrees to be bound by any and all amendments and changes to any agreement between Member and MRI.

Guarantor agrees to defend, indemnify and hold MRI harmless against any and all losses, damages, liabilities, costs and expenses (including, but not limited to, reasonable attorney's fees, reasonable costs of investigation, court costs and fees, and expenses) resulting from, consisting of, or arising out of or in connection with any failure by Member to perform any obligation of Member under the Franchise Agreement and any other agreement between Member and MRI.

Guarantor waives any and all notice of the creation, renewal, extension, accrual, modification, amendment, release, or waiver of any of the Guaranteed Obligations and notice of or proof of reliance by MRI upon this Guaranty or acceptance of this Guaranty. The Guaranteed Obligations, and any of them, will conclusively be deemed to have been created, contracted or incurred, or renewed, extended, amended, modified or waived, in reliance upon this Guaranty and all dealings between MRI and Guarantor will likewise be conclusively presumed to have been had or consummated in reliance upon this Guaranty. MRI may pursue its rights against Guarantor without first exhausting its remedies against Member and without joining any other guarantor hereto and no delay on the part of MRI in the exercise of any right or remedy will operate as a waiver of such right or remedy, and no single or partial exercise by MRI of any right or remedy will preclude the further exercise of such right or remedy.

If other guarantors have guaranteed any and or all of the Guaranteed Obligations, their liability is joint and several to that of Guarantor.

Until all of the Guaranteed Obligations have been paid in full and/or performed in full, Guarantor will have no right of subrogation, unless expressly given to Guarantor in writing by MRI.

No change in the name, objects, share capital, business, membership, directors' powers, organization or management of the Member will in any way affect Guarantor in respect of the Guaranteed Obligations either with respect to transactions occurring before or after any such change, it being understood that this Guaranty is to extend to the person(s) or entity(ies) for the time being and from time to time carrying on the business now carried on by the Member, notwithstanding any change(s) in the name or shareholders of the Member, and notwithstanding any reorganization or its amalgamation with another or others or the sale or disposal of its business in whole or in part to another or others.

All MRI's rights, powers and remedies hereunder and under any other agreement now or at any time hereafter in force between MRI and Guarantor is cumulative and not alternative and is in addition to all rights, powers and remedies given to Franchisor by law.

Should any one or more provisions of this Guaranty be determined to be illegal or unenforceable, that provision will be amended only to the extent necessary to make such provision enforceable and all other provisions nevertheless will remain effective.

This Guaranty extends to and inures to the benefit of MRI and its successors and assigns and is binding on Guarantor and its successors and assigns.

IN WITNESS WHEREOF, Guarantor has signed this Guaranty as of the date set forth above.

GUARANTOR: MEMBER1

GUARANTOR: MEMBER2

By: _____
Member1, Individually

Member2, Individually

Date: _____

Date: _____

EXHIBIT C: MRI CONTRACT STAFFING AGREEMENT

MRI CONTRACT STAFFING AGREEMENT

This Agreement is entered into at Goose Creek, SC by and among HQ MRI Corporation (or “we” “us,” or “our”) and Member1 and Member2 (“you” or “your”) and is effective on the Effective Date of the Franchise Agreement.

1. Your Permanent Placement Business. You and HQ MRI Corporation (“MRI”) are parties to a franchise agreement dated _____ (the “Franchise Agreement”) for the operation of a permanent personal placement business (the “Core Business”). You want to offer temporary staffing services to your clients through our staffing business.

2. Grant and Limitations. We grant you the nonexclusive right to operate a temporary staffing business using the methods and systems we have developed on the terms and conditions contained in this Agreement at the location from which you operate your Core Business. You acknowledge that these methods and systems are our proprietary materials and are only loaned to you in connection with this Agreement.

You acknowledge that this Agreement is only a license and that you are acting independently in your own business. You acknowledge that you have not paid a fee for this license, and that your participation in Contract Staffing is optional. You are not authorized to act for or on behalf of us and MRI except as provided for in this Agreement, and that we are not bound or obligated in any way by your acts or commitments except for our commitment to provide contract staffing services on the terms specified in this Agreement. We are not authorized to direct the day to day operations of your business, you or your agents and employees. All persons you employ or retain are your employees or agents and not of us or MRI. You may not payroll any of your employees through us, unless agreed to in writing.

MRI grants you a nonexclusive license to do business under the service mark “MRI Contract Staffing” on the terms and conditions contained in this Agreement at the location of your Core Business. You acknowledge that MRI may provide contract staffing payroll services to staffing businesses that are not affiliated with the MRINetwork. These businesses may include former MRINetwork members. These businesses will not have access to the MRI proprietary materials and may not use the MRI Marks.

All of your temporary staffing business must be conducted under this Agreement and any exception must have our prior written approval.

3. Our Services. We will provide all payroll services and administration for the temporary employees you introduce to us, including, but not limited to, payroll financing, recordkeeping, invoicing, payment of all local and federal taxes and filing of tax documents, and required insurance. We may arrange for any of these services to be provided by a third party selected by us. We will negotiate the final contract with the business seeking to engage a contractor (the “Client”). You acknowledge that you are not authorized to enter into any contract with a Client (the “Client Contract”) on our behalf without our prior written approval. Any Client Contract you execute on our behalf without our prior review and approval is null and void, and we will have no obligation to provide any services in connection with any unauthorized Client Contract and you are 100% liable for all monies due and owing from the Client in the event of nonpayment.

4. Your Obligations. You will devote your full time and best efforts to the promotion and advancement of your business under the Franchise Agreement and this Agreement and may not engage in any activities that might interfere in any manner, directly or indirectly, with the operation of such businesses. You will seek job orders for authorized job categories and recruit, screen and qualify all temporary employees (“Contract Employees”) using industry best practices and following the MRI Manual, complete and send to us all required forms, and use your best efforts to present our standard form Client Contract to the Client. If our standard form Client Contract is not approved by the Client, you must send us all documentation provided to you by the Client for our review, which we may accept or reject, in whole or in part, in our sole discretion. You shall require all Candidates to show the identification items required by law, and you shall complete any employment eligibility verification required by law or regulation.

5. Client Approval; Unpaid Invoices. We will conduct credit reviews on all new Clients and establish an approved dollar limit for Client aging. If Client exceeds the approved dollar limit, we may suspend services until the balance is below the credit limit. If any Client files bankruptcy, has a receiver appointed, or is otherwise insolvent or if any invoices remain uncollected 90 days after invoice date (the “Charge Backs”), we may, in our sole discretion, offset the amount of such invoices against any amounts owed to you or demand payment from you. If such demand is made, you will promptly, but in no event later than five days following demand, pay to us the amount of invoices unpaid. You must also pay for collection fees paid to agencies or law firms related to the uncollected invoices. In the event of a bankruptcy or other insolvency, you must return all Customer Disbursements (as defined in Section 5, herein) we paid you on any uncollectible invoice. We, in our sole discretion, may decline to provide services to any Client.

6. Support. We will provide you with the required forms and general information on the MRI Contract Staffing business via the MRI intranet and the MRI Manual. We also provide training to support of your operating a contract staffing business, which may include Webinar or classroom training. We may charge a fee for this training. You will be responsible for any costs of room and board while attending any training.

All training and other material we develop are loaned to you for the term of this Agreement and must be returned to us upon the termination of this Agreement. All such material is our property, even if you paid us any fee for its use.

7. Client Fees. You will establish the hourly fee (“Fee” or “Fees”) charged to the Client, but we have the right to adjust the wages of any Contract Employee to ensure compliance with the Fair Labor Standards Act or applicable state law and to deduct all such additional wages, overtime and tax liabilities from your portion of the fees. You have the sole right to determine the fees charged that result from the Client’s election to offer permanent employment to the Contract Employee.

8. Fees payable to you. MRICS will charge a service fee based on the pay rate to the contractor/consultant. MRICS client or Member is paid the Net Margin.

Net Margin is defined as Client Bill Rate minus Candidate Pay Rate and MRICS service fees, net of any client-specific program fees, the Charge Back amounts for any delinquent or uncollected invoices, collection fees paid to agencies or law firms to collect unpaid Client invoices, unauthorized positions, any

outstanding amount owed to us or our affiliates in this or any other agreement, insufficient fund fees for checks issued by Clients.

| NON HEALTHCARE | | |
|-------------------------------|---------------------|------------|
| Average Weekly Payroll | Service Fee* | |
| | W2 | C2C |
| less than \$15,000 | 25.00% | 10.00% |
| \$15,000 to \$29,999 | 24.00% | 8.50% |
| \$30,000 to \$44,999 | 23.00% | 7.00% |
| \$45,000 to \$59,999 | 22.00% | 5.50% |
| \$60,000-\$74,999 | 21.00% | 4.00% |
| \$75,000-\$89,999 | 20.50% | 4.00% |
| \$90,000+ | 20.00% | 4.00% |

*Additional service fee could be applicable for high risk positions (e.g. light industrial work)

| HEALTHCARE | | |
|-------------------------------|---------------------|------------|
| Average Weekly Payroll | Service Fee* | |
| | W2 | C2C |
| less than \$29,999 | 28.00% | 14.00% |
| \$30,000 to \$59,999 | 27.50% | 12.50% |
| \$60,000+ | 26.00% | 11.00% |

*Additional service fee of 2% on W2 for high workers comp states (CA, CT, DE, MD, MI, PA, WV)

End clients will be invoiced weekly with 30-day payment terms or such other terms as we may establish in our sole discretion. We will include a surcharge to your service fee for payment terms over 30 days (0.25% surcharge for each additional 15-day period), and 0.5% for monthly invoicing.

We may change the above formula for determining fees by providing thirty days' notice of such change. We will only raise fees due to increased fees or taxes imposed by federal, state or local government, insurance premium increases imposed by our insurance carrier, or other direct costs on a dollar for dollar basis. We will endeavor to announce such changes via email or provide updated information in the MRI Manual. You will pay us the amount of all new or increased labor costs associated with your assigned employees that we are legally required to pay, such as wages, benefits, including any costs required under the Affordable Care Act (or any replacement), payroll taxes, social program contributions, or charges linked to benefit levels, until the parties agree on new bill rates.

We will use our best efforts to pay you by the 25th of each month and may elect to do so before the Client pays our invoice. If business requirements change or if we, in our sole judgment become concerned about a Client's ability to pay, we may elect to pay you only after the Client has paid the invoice. The portion of the Net Margin paid to you under this Agreement does not constitute Net Cash In under the Franchise Agreement. Payments made to you for permanent placements of temporary employees (sometimes known as conversion fees) are Net Cash In under the Franchise Agreement.

You acknowledge that labor and other laws affecting employment may change and we may withhold a portion of the fees owed to you, as we determine, if it is necessary to ensure full payment of all legally

required taxes and/or fees. Upon full payment of the required taxes and/or fees, any refund due to you will be promptly paid within thirty (30) days.

9. Collection. We will invoice the Client and establish collection procedures and aging reports. At our request, you shall assist us in collecting delinquent invoices. You may not adjust or settle any amount of any invoice without our prior written approval. If any Client pays any contract staffing invoice directly to you, you will have received these funds in trust for us. You may not convert or deposit these funds, and you must forward them to us within twenty-four (24) hours of receipt, with proper endorsement, if needed. All accounts receivable for temporary staffing services rendered by you are from their inception, and remain, our property. You shall have no right, title or interest in or to any account receivable at any time, unless it is assigned to you, in writing, by us.

10. Uncollectible Invoices. We will conduct credit checks on all new Clients. If we approve the Client, we will be solely responsible for nonpayment that arises from insolvency up to the approval dollar limit. In the event of insolvency, you must repay us any commission we paid to you. In all other cases, where we determine a debt is uncollectible, you must pay us for all unpaid Client invoices and must reimburse us for any monies we paid to anyone in connection with that Client that are uncollectible. The determination of whether a debt is "uncollectible" is at our sole discretion. If at any time, the commission due to you is a negative amount, you shall pay us the negative amount within ten (10) days after we notify you of the deficit.

11. Insurance. We will maintain Workers Compensation insurance for each Contract Employee and other business insurances appropriate for our operations. You will maintain all insurance coverage required by the Franchise Agreement with any additional insurance that is recommended, customarily maintained and/or required by the Client for the operation of a contract staffing business. Your insurance shall be primary to our insurance and without right of contribution from any insurance purchased by us or MRI.

12. Authorized Job Categories. You will only recruit and fill Client assignments within the following general work categories: executive, management, administrative, professional, technical, and sales, and such other categories as may from time to time authorized by us in writing in each instance. We may direct you not to provide Contract Employees in any category or field that we designate, without our prior written approval in each instance and you shall comply with such directives that we give you thirty (30) days written notice of such change in directive. If you provide Contract Employees for any unauthorized job category, you are solely responsible for the employer liabilities (e.g., Workers' Compensation, FICA, FUTA and SUTA) and any unpaid fees even if we did approve the Client as well as payments described in this Agreement.

13. Restricted Job Categories. You may not recruit or refer to us any Contract Employee for any Client looking to fill heavy or medium industrial positions; any positions employing minors (under 18 years of age); positions that require driving; positions handling money (e.g. cash, checks money orders); positions that require lifting greater than or equal to twenty-five (25) pounds; positions that require working at or from a third party's residence; dental, veterinary; aircraft maintenance or mechanic positions; police, fire, security guard or other similar positions; child care or any position working with minors; any position that involves performance responsibility, e.g., a commitment to produce a certain outcome or result for the Client; or any other assignments or positions we disapprove or prohibit. You will be responsible for payment of all claims, damages or penalties that may be incurred as a result of such unauthorized staffing assignments that have no received or never previously received our prior approval. You acknowledge and agree that referrals in the Restricted Job Categories in this Paragraph 13 may incur a surcharge and you agree that we may reduce any Fees Payable to You, as described herein by the amount of the surcharge.

You will not, without our prior written approval, accept any contract staffing assignments from Clients in which you are an officer or director, or in which you have more than five percent (5%) ownership interest, or Clients that: do not charge an hourly rate, have in the past or currently demonstrate an unacceptable payment policy, have, in our sole discretion, unsatisfactory credit histories, have outstanding invoices more than sixty days in arrears, or that require insurance that we do not have or are unwilling to secure or that we cannot secure on a basis we deem reasonable.

You must immediately withdraw a Contract Employee from a Client's service at our direction if we deem it necessary for reasons of unacceptable financial or safety risk or because the position is one barred in this Agreement.

We may from time to time provide alternative staffing or payrolling sources for some of the job categories we prohibit. If you utilize our alternative staffing or payrolling source, your only obligation will be to report your net cash-in from the and pay the standard royalty fee provided in your Franchise Agreement on any fees you received from this alternative staffing source. If you want to offer Contract Employees through any staffing or pay rolling company other than us or our alternative staffing source companies, you must obtain our prior written approval and pay the fee described in this section.

14. Payrolling Only Service. You may request that we act as payroll agent to pay employees recruited by the Client to perform contract services for the Client. We, in our sole discretion, will have the right to approve or reject any payroll service orders. You may not finance the payroll for any Client, nor may you engage another staffing company to do it for you without our prior written approval.

15. Litigation or Claims. If any action or proceeding is brought against you relating to your business under this Agreement, you will immediately provide us with copies of all pleadings and papers relating to the action or proceeding and will keep us informed regarding the progress and outcome of such action or proceeding. You will help us obtain any necessary documentation and forms required from employees by applicable law. You will cooperate fully with us in the defense of any Workers Compensation, unemployment or any other claims made by the Contract Employees, any Client or any other person or entity relating to any staffing assignment.

16. InterOffice Referrals (IOR). We will provide you with access to our IOR system for potential Contract Employee candidates. In the event of any dispute with another MRI Contract Staffing office about a fee or any portion of it, it must be resolved through the IOR Arbitration process provided for in the Agreement to Arbitrate Member Disputes signed in conjunction with the Franchise Agreement. We may, but are not obligated to, withhold payment of Net Margin fees to you pending a settlement or resolution of the dispute. If we have paid any funds that are in dispute to one of the parties, we shall be relieved of any obligation to the other parties, which instead shall assert their claims only against the party or parties that received the funds in dispute.

17. Marks. The "Marks" means all trade names, trademarks, service marks and logos or slogans licensed to you under this Agreement. You acknowledge that MRI is the sole owner of the Marks and of any goodwill associated with them, that you may only use the Marks in the manner permitted in this Agreement. You may not attempt to register or attempt to register the Marks in your own name or as part of any fictitious name. You must notify us and MRI if you discover any unauthorized use of the Marks.

18. Transferability. We may transfer all or any part of our rights and obligations under this Agreement without your permission. This Agreement is personal to you. It may not be transferred, sublicensed, shared

or divided in any way, in whole or in part, voluntarily or involuntarily, by operation of law or otherwise without our prior written approval, and only in conjunction with the transfer of your rights under your Franchise Agreement and shall be subject to the terms and conditions relating to transfer found in the Franchise Agreement.

19. Term. The Term of this Agreement is co-extensive with the Term of the Franchise Agreement, including any renewals or extensions, and unless terminated in accordance with this Agreement, it shall automatically terminate upon the termination or expiration of the Franchise Agreement.

20. Suspension of Services/Right of Set Off. If you are in default of the Franchise Agreement, or of this Agreement, we may cease providing services to you until such time as, in our reasonable judgment, your default has been resolved to our satisfaction. If you owe MRI money under the Franchise Agreement, this Agreement or any other agreement or note with us or our affiliates, we may apply such monies earned under this Agreement to your arrearage under the Franchise Agreement, this Agreement or to any other arrearage owed to us or our affiliates.

21. Termination by Us. We may terminate this Agreement and the license granted in it within thirty (30) days after written notice if: (a) you fail to submit any report, financial statement, tax return or document required by this Agreement, (b) you fail to pay us any money owed to us within fourteen (14) days after its due date; or (c) you breach any provision of this Agreement or any other agreement with us or our affiliates. We may terminate this Agreement upon written notice if (a) you are convicted of a felony or of any crime involving moral turpitude; b) you commit any act that damages the goodwill associated with the Marks or (c) you have received two notices to cure defaults within a twelve-month period and you commit an additional default of this Agreement even if such prior defaults were rectified.

22. Indemnity. You agree to indemnify, defend and hold us and MRI and their affiliates, employees, officers and representatives harmless from and against any claims, demands, losses, suits, actions, proceedings or liabilities, or expenses, including reasonable attorneys' fees that we incur relating to damages or injury of any sort or description, whether suffered by us, you or any third party, arising out of or in any way related to (i) your breach of any provision of this Agreement; or (ii) your activities, including your acts or omissions in connection with this Agreement. If legislation enacted by or regulation of any governmental body prevents you from conducting business pursuant to this Agreement, we shall not be held liable for any damages nor be required to indemnify you in any manner whatsoever or to return any monies received from you.

23. Noncompetition; Non-Solicitation. You recognize that our trade secrets, including without limitation, rates, customers, systems, vendor arrangements and discounts, and other critical business matters, which allow us to provide the services to you set forth in this Agreement, are the underpinning of our business, and protection of those trade secrets is a matter of critical importance to us, and you acknowledge our need to protect the trade secrets against unauthorized use or disclosure. You agree that neither you, nor, as applicable, any owner or shareholder of the outstanding capital stock, membership units, or other similar ownership units of you, nor any partner, director, officer, manager, nor other key employee of you, nor any respective family member of any such person (collectively, the "Restricted Persons") shall directly or indirectly engage in or perform services for or hold an ownership interest in any competing business during the term of this Agreement or for a period of two (2) years following its termination. Your promise to deal exclusively with us is a significant element of the consideration for which we are entering into this Agreement. For purposes of this Agreement, the term "competing business" shall mean a business engaged in the temporary staffing of skilled or unskilled personnel, employee leasing, or a related enterprise. In addition, you agree that during the term of this Agreement and for a period of two (2) years following its termination, the Restricted Persons

will not, without the prior written consent of us, either directly or indirectly, on their respective own behalf or on behalf of others, solicit, divert, or appropriate to any competing business, any of our employees, or any person or entity which is a customer or prospective Client of you pursuant to this Agreement. You will obtain appropriate agreements from your employees to ensure compliance with this paragraph.

24. Confidentiality. You acknowledge that the information, training and any material we provide you in connection with this Agreement are and must be treated as confidential and are for your sole use only during the term of this Agreement.

25. Entire Agreement. This Agreement and any attachments referenced herein constitutes the entire agreement between you and us in connection with temporary staffing services, and supersedes all prior and contemporaneous agreements and understandings, and no other understanding which modifies the terms hereof shall be binding unless made in writing and signed by authorized representatives of both parties.

26. Independent Contractors. You and we will act as independent contractors and neither of us shall act as agent or partner of the other for any purpose whatsoever. This Agreement does not constitute, create, give effect to, or otherwise recognize a joint venture, agency, partnership, or formal business organization of any kind, and the rights and obligations of the parties shall be only those expressly set forth herein. Nothing contained in this Agreement shall be construed as providing for the sharing of profits or losses arising from the efforts of all or any of the parties.

27. Electronic Signatures. This agreement may be executed, including electronically, in one or more counterparts, each of which when executed shall be deemed to be an original and all of which shall constitute one and the same instrument.

28. LIMITATION OF LIABILITY. OUR TOTAL LIABILITY TO YOU FOR ANY CLAIMS, LIABILITIES, DEMANDS, LOSSES, EXPENSES OR DAMAGES WHATSOEVER, ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT FROM ANY CAUSE OR CAUSES SHALL (I) BE LIMITED TO THE EXTENT CAUSED BY OUR NEGLIGENCE OR WILLFUL MISCONDUCT IN THE PERFORMANCE OF OUR SERVICES; (II) IN THE AGGREGATE NOT EXCEED ONE HUNDRED PERCENT (100%) OF THE FEES RECEIVED BY US UNDER SECTION 8 DURING THE SIX MONTHS PRIOR TO THE DATE UPON WHICH THE EVENTS GIVING RISE TO THE LIABILITY OCCURED; AND (III) NOT INCLUDE ANY SPECIAL, CONSEQUENTIAL, INCIDENTAL, INDIRECT, EXEMPLARY OR PUNITIVE DAMAGES, OR LOSS OF PROFITS, USE OR DATA.

29. GOVERNING LAW; SUBMISSION TO JURISDICTION. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF SOUTH CAROLINA WITHOUT GIVING EFFECT TO ANY CHOICE OR CONFLICT OF LAW PROVISION OR RULE. ANY ACTION, SUIT, OR PROCEEDING ARISING OUT OF OR BASED UPON THIS AGREEMENT MAY BE INSTITUTED IN THE STATE COURT FOR SOUTH CAROLINA LOCATED IN CHARLESTON OR BERKELEY COUNTIES ONLY, AND EACH PARTY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF SUCH COURT IN ANY SUCH SUIT, ACTION, OR PROCEEDING. THE PARTIES IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY OBJECTION TO THE LAYING OF VENUE OF ANY SUIT, ACTION, OR ANY PROCEEDING IN SUCH COURT AND IRREVOCABLY WAIVE AND AGREE NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH SUIT, ACTION, OR PROCEEDING BROUGHT IN SUCH COURT HAS BEEN BROUGHT IN AN inconvenient forum.

30. INCORPORATION OF TERMS IN THE FRANCHISE AGREEMENT. The following captioned provisions of the Franchise Agreement are incorporated in this Agreement by reference except to the extent that any

such provisions conflict with the express terms of this Agreement:

TRANSFERABILITY OF LICENSE; CAPTIONS AND TERMINOLOGY; CONSENT; TIME OF THE ESSENCE; TIME FOR BRINGING ACTIONS OR CLAIMS; NOTICES; APPLICABLE LAW; DISPUTE RESOLUTION; MODIFICATION OR WAIVER; SEVERABILITY; SUCCESSORS AND ASSIGNS AND SAVINGS CLAUSE.

The parties have executed this Agreement to evidence their agreement with its terms.

HQ MRI CORPORATION

MEMBER1

By: _____

Member1, Individually

Date: _____

Date: _____

MEMBER2

Member2, Individually

Date: _____

EXHIBIT D: AGREEMENT TO ARBITRATE MEMBER DISPUTES

AGREEMENT TO ARBITRATE MEMBER DISPUTES

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

RECITALS

Member is a member of MRI and signatory to the Franchise Agreement to which this Exhibit D is appended. Member and the entire MRINetwork benefit if disputes between members relating to the operations of MRINetwork franchised businesses are resolved by arbitration instead of litigation.

AGREEMENTS

The parties agree as follows:

1. Arbitrate. Member will arbitrate all disputes with other MRINetwork Offices arising from or relating to Interoffice Referrals, Remote Recruiters, and other claims relating to the MRINetwork. Member 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 Member becomes involved in a situation in which Member’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. Member 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 Member becomes involved in a dispute over the hiring of a remote recruiter by another member 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 Member.

4. Failure/Refusal to Arbitrate. If Member fails or refuses to participate in an Arbitration that involves Member's office, the dispute will be submitted to the arbitrators without Member's statement of facts or other input and the arbitrators' decision shall be binding upon Member.
5. Excluded Disputes. This Agreement does not apply to disputes between Member and MRI that are subject to the Dispute Resolution procedures described in the Franchise Agreement between Member 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. Member 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 Member's Office.

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

HQ MRI CORPORATION

MEMBER1

By: _____

Member1, Individually

Date: _____

Date: _____

MEMBER2

Member2, Individually

Date: _____

EXHIBIT E: ACH AUTHORIZATION

**AUTHORIZATION AGREEMENT FOR PRE-ARRANGED PAYMENTS (ACH DEBITS)
COMPANY NAME: HQ MRI CORPORATION**

COMPANY ID NUMBER: 34-1101503

I (we) hereby authorize HQ MRI Corporation, hereinafter called COMPANY, to initiate debit entries to my (our) checking account indicated below and the depository named below, hereinafter called DEPOSITORY, to debit the same to such account.

DEPOSITORY NAME: _____

BRANCH: _____

CITY: _____ STATE AND ZIP: _____

TRANSIT/ABA NUMBER : _____

ACCOUNT NUMBER: _____

This authority is to remain in full force and effect until COMPANY and DEPOSITORY has received written notification from me (or either of us) of its termination in such time and in such manner as to afford COMPANY and DEPOSITORY a reasonable opportunity to act on it. I (or either of us) have the right to stop payment of a debit entry by notification to DEPOSITORY at such time as to afford DEPOSITORY a reasonable opportunity to act on it prior to charging account. After account has been charged, I have the right to have the amount of an erroneous debit immediately credited to my account by DEPOSITORY, provided I (we) send written notice of such debit entry in error to DEPOSITORY within 15 days following issuance of the account statement or 45 days after posting, whichever occurs first.

Names: Member1, Member2

ID Number: 9999-1

Member1

Date

Member2

Date

HQ MRI CORPORATION
FRANCHISE DISCLOSURE DOCUMENT
EXHIBIT A-2 PROMISSORY NOTE
PROMISSORY NOTE

| | |
|-----------|------------------|
| XXXXXX.XX | LOCATION DATE |
|-----------|------------------|

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

1. Payment Dates.

(a) Payment Dates. The Loan shall be payable in [NUMBER] equal consecutive [WEEKLY OR MONTHLY] installments of \$[PAYMENT AMOUNT] (\$\$\$) beginning on [DATE] and every [WEEK OR MONTH] thereafter until [MATURITY DATE]. On [MATURITY DATE], all amounts outstanding under this Note, including principal, accrued and unpaid interest, and any unpaid fees, shall be due and payable.

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

2. Interest.

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

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

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

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

3. Payment Mechanics.

(a) Manner of Payment. Payments will be made via ACH transfer every [WEEK OR MONTH] until the Maturity Date, beginning on [DATE]. Borrower hereby authorizes Noteholder

or its affiliate, including HQ MRI Corporation to withdraw the amount of said payments directly via ACH and shall execute any separate authorization necessary for the same. In addition, Noteholder shall be entitled to apply toward satisfaction of the indebtedness, the entirety of any amount owed to Borrower by any of Noteholder's Affiliates, including HQ MRI Corporation. All payments made hereunder shall be applied first to the payment of any fees charges outstanding hereunder, second, to accrued interest, and third to the payment of the principal amount outstanding under the Note.

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

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

(b) Bankruptcy; Insolvency.

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

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

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

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

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

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

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

5. Notice of Event of Default. As soon as possible after it becomes aware that an Event of Default has occurred, and in any event within two (2) Business Days, the Borrower shall notify the Noteholder in writing of the nature and extent of such Event of Default and the action, if any, it has taken or proposes to take with respect to such Event of Default.

6. Remedies. Upon the occurrence and during the continuance of an Event of Default, the Noteholder may, at its option, by written notice to the Borrower declare the outstanding principal amount of the Loan, accrued and unpaid interest thereon, and all other amounts payable hereunder immediately due and payable; *provided, however*, if an Event of Default described in Sections 4(b) shall occur, the

outstanding principal amount, accrued and unpaid interest, and all other amounts payable hereunder shall become immediately due and payable without notice, declaration, or other act on the part of the Noteholder.

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

(a) If to the Borrower:

[BORROWER ADDRESS]

Attention: BORROWER

(b) If to the Noteholder:

HQ Financial Corporation
111 Springhall Drive
Goose Creek, SC 29445

Attention: John D. McAnnar

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

9. Disputes.

(a) Submission to Jurisdiction.

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

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

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

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

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

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

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

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

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

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

15. Counterparts. This Note and any amendments, waivers, consents, or supplements hereto may be executed in counterparts, each of which shall constitute an original, but all of which taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page to this Note by facsimile or in electronic ("pdf" or "tif") format shall be as effective as delivery of a manually executed counterpart of this Note.

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

IN WITNESS WHEREOF, the Borrower has executed this Note as of [DATE].

[BORROWER]

By _____

Name:

Title:

ACKNOWLEDGED AND ACCEPTED BY
HQ FINANCIAL CORPORATION

By _____

Name: John D. McAnnar

Title: General Counsel

EXHIBIT A to PROMISSORY NOTE: ACH AUTHORIZATION

AUTHORIZATION AGREEMENT FOR PRE-ARRANGED PAYMENTS (ACH DEBITS)

COMPANY NAME: HQ FINANCIAL CORPORATION

I (we) hereby authorize HQ Financial Corporation, hereinafter called COMPANY, to initiate debit entries to my (our) checking account indicated below and the depository named below, hereinafter called DEPOSITORY, to debit the same to such account.

DEPOSITORY NAME: _____

BRANCH: _____

CITY: _____ STATE AND ZIP: _____

TRANSIT/ABA NUMBER : _____

ACCOUNT NUMBER: _____

This authority is to remain in full force and effect until COMPANY and DEPOSITORY has received written notification from me (or either of us) of its termination in such time and in such manner as to afford COMPANY and DEPOSITORY a reasonable opportunity to act on it. I (or either of us) have the right to stop payment of a debit entry by notification to DEPOSITORY at such time as to afford DEPOSITORY a reasonable opportunity to act on it prior to charging account. After account has been charged, I have the right to have the amount of an erroneous debit immediately credited to my account by DEPOSITORY, provided I (we) send written notice of such debit entry in error to DEPOSITORY within 15 days following issuance of the account statement or 45 days after posting, whichever occurs first.

Names: Member1, Member2

ID Number: 9999-1

Member1

Date

Member2

Date

EXHIBIT "A3"
TO FRANCHISE DISCLOSURE DOCUMENT
FOR HQ MRI CORPORATION

SECURITY AGREEMENT

THIS SECURITY AGREEMENT ("Agreement") is made and entered into as of the _____ day of _____, 20____, by and between HQ FINANCIAL CORPORATION, a Delaware corporation and, as may be applicable, its Parent and Affiliates ("Lender"), and _____, a _____ ("Borrower").

Recitals

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

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

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

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

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

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

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

All accounts, accounts receivable, promissory notes, instruments, rights to payment of money, patents, trademarks, trade names, licenses, franchises, general intangibles, contract rights, chattel paper, and other obligations of any kind, whether now owned or hereafter acquired by Borrower and all proceeds of the foregoing (collectively,

"Receivables"), including without limitation, all rights now or hereafter existing in and to all security agreements, leases and other contracts securing or otherwise relating to any Receivables (all such leases, security agreements and other contracts being called the "Assigned Contracts"), and all proceeds, profits, deposits, products and accessions of and to, and substitutions or renewals for, all of the foregoing;

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

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

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

Borrower's Covenants, Warranties and Representations.

Borrower covenants, warrants and represents the following:

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

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

Borrower will pay the Loan, and perform its Obligations hereunder, and under the Franchise Agreement, and operate the Business in accordance with the Franchise

Agreement and applicable laws. Borrower will take all actions necessary to prevent a default hereunder or under the Franchise Agreement. Borrower will comply with all laws, ordinances or regulations of any governmental authority applicable to Borrower or the Business.

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

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

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

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

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

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

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

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

All tangible Collateral, and all books and records pertaining to the Collateral, shall be kept at the principal executive office of Borrower, which is located at _____. Borrower shall not change its principal executive office, nor shall it remove the Collateral or books and records and other information related to the Collateral

located at said location without the prior written consent of Lender. The Collateral will not be wasted, misused or abused or deteriorated, except to the extent of ordinary wear and tear, and will not be used in violation of any law, ordinance or regulation of any governmental authority.

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

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

No authorization, approval or other action by, and no notice to or filing with any governmental authority or regulatory body, or any other party is required either (i) for Borrower's entry into or performance under the Franchise Agreement or this Agreement, or (ii) for the grant by Borrower of the security interest granted hereby, or for the execution, delivery or performance of this Agreement by Borrower; or (iii) for the perfection of or the exercise by Lender of its rights and remedies hereunder, excepting for the filing of UCC-1 financing statements with the appropriate public authorities.

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

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

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

Borrower hereby authorizes the Lender to file such financing statement(s) or continuation statement(s) relating to the Collateral without Borrower's signature thereon, as Lender may deem appropriate. Borrower shall also execute from time to time along or with

the Lender, any financing statement or statements or other documents, and do such other act or acts considered by the Lender to be necessary or desirable to perfect or protect the security interest hereby created, and shall pay all costs and expenses (including, without limitation, reasonable fees and expenses of counsel and filing fees) related to the preparation and filing of any financing statements, continuation statements, or other documents related to the perfection or protection of the security interest hereby created.

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

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

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

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

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

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

statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Lender may reasonably request, all in reasonable detail.

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

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

Borrower shall, at its own expense, maintain insurance with respect to the Equipment and Inventory and all other personal property in such amounts against such risks, in such form and with such insurers, as shall be satisfactory to the Lender. Each policy for liability insurance shall name Lender as an additional insured. Each policy for property damage insurance shall name Lender as a loss payee and shall provide for all losses to be paid directly to the Lender upon the request of the Lender. Each such policy shall also (i) contain an agreement by the insurer that any loss there under shall be payable to the Lender notwithstanding any action, inaction or breach of representation or warranty by Borrower, (ii) provide that there shall be no recourse against the Lender for payment of premiums or other amounts with respect thereto, (iii) provide that at least ten (10) days prior written notice of cancellation or of lapse shall be given to the Lender by the insurer, and (iv) provide that upon notification from the Lender, all payments pursuant to such policies shall be paid directly to the Lender.

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

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

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

Lender Appointed Attorney-In-Fact. Borrower hereby irrevocably appoints Lender Borrower's attorney-in-fact, effective upon the occurrence and continuance of an Event of Default with full authority in the place and stead of Borrower and in the name of Borrower, the Lender or otherwise, from time to time after default by Borrower hereunder, in the Lender's discretion, to take

any action and to execute any instrument which the Lender may deem necessary or advisable to accomplish the purposes of this Agreement, including without limitation:

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

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

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

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

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

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

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

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

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

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

The commencement of levy, execution or attachment proceedings against Borrower or any Guarantor, or the application for or appointment of a liquidator, receiver,

custodian, sequester, conservator, trustee, or other similar judicial officer (and such appointment continues for a period of thirty days);

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

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

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

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

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

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

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

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

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

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

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

Lender may, with judicial assistance by injunction, or otherwise, require Borrower, at Borrower's expense, to assemble all or any part of the Collateral and make it available to Lender at any place designated by Lender. Borrower hereby agrees that Borrower's principal place of business or any place designated by Lender within Berkeley County, South Carolina is a place reasonably convenient to Borrower to assemble such Collateral;

Borrower hereby agrees that a notice to Borrower, at least five days before the time of any intended sale or of the time after which any public or private sale or other disposition of the Collateral is to be made, shall be deemed to be reasonable notice of such sale or other disposition;

In the event of sale or other disposition of any such Collateral, the Lender may apply the proceeds of any such sale or disposition to the satisfaction of its reasonable attorneys' fees, legal expenses, and other costs and expenses incurred in connection with its taking, re-taking, holding, preparing for sale and selling of the Collateral;

Without precluding any other methods of sale, the sale of Collateral shall have been made in commercially reasonable manner if conducted in conformity with reasonable commercial practices but, in any event, the Lender may sell on such terms as it may choose, without assuming any credit risk and without any obligation to advertise;

The Collateral need not be present at any public or private sale or in view of the purchaser or purchasers, and title shall pass upon such sale wherever the property or any part thereof is located with like effect as though all the property were present and in the possession of the person conducting the sale and were physically delivered to the purchaser or purchasers; the Lender may bid for and purchase at any public or private sale the Collateral offered for sale or any part thereof, and by such purchase shall become the owner thereof;

Any sale or other disposition of the Collateral, or any portion thereof, or of any other property of Borrower held by Lender or any portion thereof, made under or by virtue of this Agreement shall operate to divest all of the estate, right, title, interest, claim and demand whatsoever at law or in equity of Borrower and all persons claiming by, through or under Borrower in and to the properties and rights so sold, whether sold to Lender or to others. The receipt of Lender or its designated agent shall be a sufficient discharge to the purchaser or purchasers at any such sale or other disposition for his or their purchase money, and such purchaser or purchasers and their respective successors, assigns or personal representatives, shall not, after paying such purchase money and receiving such receipt of Lender or of such agent of Lender, be obligated to see to the application of such purchase money or be in any way answerable for any loss, misapplication or non-application thereof;

Lender may deduct from the gross proceeds of any public or private sale the expenses incurred by Lender in connection therewith, and any other expenses payable to or recoverable by Lender as set forth in this Agreement or the Note, or the Franchise Agreement, including reasonable attorneys' fees and brokers' commissions, if any, and the net proceeds then remaining shall be applied first to the satisfaction of the amount owed to the Lender by Borrower, including payment of all of the Obligations, and, any amount then remaining shall be returned to Borrower;

Lender may (i) notify the Account Debtors under any and all of Borrower's accounts, including, without limitation, the Receivables and Assigned Contracts, of Lender's interest therein, and direct such Account Debtors to make payments due and to become due there under directly and solely to Lender, (ii) accept and take control of all payments and proceeds received from the Account Debtors, and, at the expense of Borrower, enforce collection of any such Receivables and Assigned Contracts and adjust, settle or compromise the amount for payment thereof in the same manner and to the same extent as Borrower might have done. Additionally, all amounts and proceeds (including instruments) received by Borrower in respect of the Receivables and Assigned Contracts shall be received in trust for the benefit of the Lender, shall be segregated from other funds of Borrower and shall be forthwith paid over to the Lender in the same form as so received (with any necessary endorsement) to be held as cash collateral and either (i) released to Borrower so long as no Event of Default shall be continuing or if Lender no longer deems itself insecure, or (ii) if any Event of Default shall have occurred and be continuing, or if Lender deems itself insecure, applied against Lender's reasonable attorneys' fees and expenses, and, all other expenses of Lender incurred in connection with this Agreement, and, then applied as provided in this Agreement, and, Borrower shall not adjust, settle or compromise the amount or payment of any Receivable or Assigned Contract, or release wholly or partly any Account Debtor or obligor thereof, or allow any credit or discount thereon. The above shall not be deemed to constitute a foreclosure by Lender or an election by Lender of any remedy limiting the right of Lender to recover the unpaid balance of the Obligations, such that Lender shall be entitled to all other remedies set forth herein;

Lender may proceed directly against Borrower and any Guarantor under the Note and/or the Obligations and obtain judgments against the same;

Lender may terminate the Franchise Agreement, and exercise any rights and remedies provided for therein;

No right, power, or remedy of Lender as provided in this Agreement, the Franchise Agreement, the Note and in any other agreement associated herewith, is intended to be exclusive of any other right, power, or remedy of Lender, but each and every such right, power and remedy shall be cumulative and concurrent and in addition to any other right, power or remedy available to Lender now or hereafter existing at law or in equity. The failure of Lender to exercise any such right, power or remedy shall in no event be construed as a waiver or release thereof.

Indemnity and Expenses. Borrower shall indemnify and hold harmless Lender as follows:

Borrower agrees to indemnify the Lender from and against any and all claims, losses and liabilities growing out of or resulting from this Agreement (including, without limitation, enforcement of this Agreement), except claims, losses or liabilities resulting from the Lender's gross negligence or willful misconduct.

Borrower will, upon demand, pay to the Lender the amount of any and all reasonable expenses, including the reasonable fees and disbursements of its counsel, which the Lender may incur in connection with (i) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any of the Collateral, (ii) the exercise or enforcement of any of the rights of the Lender hereunder or (iii) the failure by Borrower to perform or observe any of the provisions hereof.

Submission to Jurisdiction. Borrower irrevocably and unconditionally (a) agrees that any suit, action or other legal proceeding arising out of or relating to this Agreement or any other associated loan document, may be brought, at the option of Lender, in a court of record in the State of South Carolina in Charleston County, in the United States District Court for the District of Charleston, or in any other court of competent jurisdiction; (b) consents to the jurisdiction of each such court in any such suit, action or proceedings; and (c) waives any objection which it may have to the laying of venue of any such suit, action, or proceeding in any of such courts.

Addresses for Notices. All notices and other communications provided for hereunder, if any, shall be in writing and, if to Borrower, mailed or delivered to it, addressed to it at the address of Borrower specified as follows: _____; if to the Lender, mailed or delivered to it, addressed to it at the address of the Lender specified as follows: _____, or as to either party at such other address as shall be designated by such party in a written notice to each other party complying as to delivery with the terms of this Section.

Continuing Security Interest; Transfer of Note. This Agreement shall create a continuing security interest in the Collateral and shall (a) remain in full force and effect until payment in full of the Obligations, (b) be binding upon Borrower, its successors and assigns and (c) inure to the benefit of the Lender and its successors, transferees and assigns. Without limiting the generality of the foregoing clause (c), the Lender may assign or otherwise transfer the Note held by it to any other person or entity, and such other person or entity shall thereupon become vested with all the benefits in respect thereof granted to the Lender herein or otherwise. Upon the payment in full of the Obligations, the security interest granted hereby shall terminate and all rights to the Collateral shall revert to Borrower. Upon any such termination, the Lender will, at Borrower's expense, execute and deliver to Borrower such documents as Borrower shall reasonably request to evidence such termination.

Amendments, Etc. No amendment or waiver of any provision of this Agreement nor consent to any departure by Borrower here from shall in any event be effective unless the same shall

be in writing and signed by the Lender, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

Waiver. No failure on the part of Lender to exercise or delay in exercising any right or remedy hereunder shall operate as a waiver thereof, nor shall any singular or partial exercise by the Lender of any right or remedy hereunder preclude any other or future exercise thereof, or the exercise of any other right or remedy.

Successors and Assigns. All of the terms, conditions, and covenants of this Agreement shall inure to the benefit of and bind the heirs, personal representatives, successor and assigns of the respective parties hereto.

Modification. This Agreement may not be changed orally, but only by an instrument in writing, and signed by the party against whom enforcement of any waiver, change, modification or discharge is sought.

Non-Judicial Process. Lender may enforce its rights hereunder without resort to prior judicial process or judicial hearing, and, Borrower hereby waives any right Borrower may have to notice and a hearing before possession or sale of Collateral is effected by Lender by self-help, repletion, attachment or otherwise, such waiver being consistent with commercial necessity. Nothing herein is intended to prevent Lender from resorting to judicial process at its option.

Governing Law. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter and the rights and obligations of the parties hereunder shall be construed and interpreted in accordance with the laws of the State of South Carolina.

LENDER AND BORROWER HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ALL RIGHT TO A TRIAL BY JURY IN RESPECT TO ANY LITIGATION BASED HEREON OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH THIS AGREEMENT AND ANY AGREEMENT CONTEMPLATED OR TO BE EXECUTED IN CONJUNCTION HERewith, UNDER ANY OF THE LOAN DOCUMENTS, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN), OR ACTIONS OF EITHER PARTY.

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

WITNESSES:

BORROWER:

By: _____
Name: _____
Title: _____

LENDER:

HQ FINANCIAL CORPORATION, a
Delaware corporation

By:_____
Name:_____
Title:_____

STATE OF _____)
) SS:
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of _____, 20__, by _____, the _____ of _____, a _____, on behalf of the corporation, who is personally known to me or who has produced _____ as identification.

NOTARY PUBLIC

Sign:_____

Print:_____

My Commission Expires:

(SEAL)

EXHIBIT C TO THE FRANCHISE DISCLOSURE DOCUMENT

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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 |
| JJR Partners | P O Box 70088 | Oro Valley | AZ | 85737 | (520) 229-8882 |
| 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 |
| Express Recruiting | 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 |
| Protis Global | | San Francisco | CA | 94101 | (305) 424-8510 |
| 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 |
| 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 |
| MRC Staffing Solutions | 1689 Tarpin Bay Dr South | Naples | FL | 34119 | (937) 438-0042 |
| Morisey-Dart Group | 950 Encore Way | NAPLES | FL | 34110 | (239) 596-7280 |
| 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 |
| Biledo Associates | 8008 Links Way. | Port St Lucie | FL | 34986 | (815) 524-2345 |
| Management Recruiters of Clearwater | 1703 Country Trails Dr. | SAFETY HARBOR | FL | 34695 | (727) 791-3277 |
| 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 |
| Bayside Search Group* | 3401 Bayshore Blvd | Tampa | FL | 33629 | (813) 228-0258 |
| 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 |
| Park Avenue Group | 254 Sylvan Boulevard | Winter Park | FL | 32789 | (407) 629-2424 |
| 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 |
| 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 |
| The Roswell Group, Inc. | 4973 Leifs Landing | Marietta | GA | 30068 | (770) 645-6009 |

EXHIBIT C-1 LIST OF ACTIVE FRANCHISEES

| | | | | | |
|--|------------------------------|----------------|----|-------|----------------|
| 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 |
| 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 | | 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 | . | Boise | ID | 83702 | (208) 425-6555 |
| Sales Consultants of Bloomington | 513 E. Locust St. | BLOOMINGTON | IL | 61701 | (309) 829-6000 |
| M-Works Search | 1038 North Ashland Ave. | Chicago | IL | 60622 | (312) 226-4916 |
| Protis Global* | 540 North Street, Suite 4108 | Chicago | IL | 60654 | (305) 424-8510 |
| 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 |
| The Kenner Group | 9704 Falcon Drive | Richmond | IL | 60071 | (815) 322-9150 |
| Management Recruiters of St Charles, IL | 310 S 1st Street | Saint Charles | IL | 60174 | (630) 443-5200 |
| 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 |
| MoldingSearch.com | 149 Whatley Road | Conway | MA | 01341 | (413) 824-6447 |

EXHIBIT C-1 LIST OF ACTIVE FRANCHISEES

| | | | | | |
|---|---------------------------------------|------------------|----|-------|----------------|
| 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 |
| 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 |
| Flory Group | 6586 Torybrooke Circle | West Bloomfield | MI | 48323 | (513) 282-0900 |
| 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 |
| Harrison Group, Inc | 401 Pine Street | St. Louis | MO | 63102 | (319) 366-8441 |
| KR Hugill Associates | 7045 Shiny Penny Way | Billings | MT | 59106 | (720) 924-8203 |
| 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 |

EXHIBIT C-1 LIST OF ACTIVE FRANCHISEES

| | | | | | |
|--|-----------------------------------|------------------|----|-------|----------------|
| The Photonics Group | 6015 Fayetteville Road | DURHAM | NC | 27713 | (919) 572-2292 |
| The Photonics Group | 6015 Fayetteville Road | Durham | NC | 27713 | (919) 572-2292 |
| Management Recruiters of Gastonia North | 3816 South New Hope Road, Suite 8 | Gastonia | NC | 28056 | (704) 215-5968 |
| Management Recruiters of Gastonia North | 3816 South New Hope Road, Suite 8 | Gastonia | NC | 28056 | (704) 215-5968 |
| The Hickory Group | 835 HIGHLAND AVENUE S.E. | HICKORY | NC | 28602 | (828) 324-2020 |
| PKaza - Critical Facilities Recruiting* | 1013 Chestnut Lane | Matthews | NC | 28104 | (973) 895-5200 |
| 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 |
| Northstar Search Group | 1213 Culbreth Dr. | Wilmington | NC | 28405 | (910) 509-7129 |
| Gibson Consultants of Wilmington, Inc. | 1121 Military Cutoff Rd, C-378 | Wilmington | NC | 28405 | (203) 948-2880 |
| 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 |

EXHIBIT C-1 LIST OF ACTIVE FRANCHISEES

| | | | | | |
|--|----------------------------------|-----------------|----|------------|----------------|
| 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 |
| Acuity Search Solutions, Inc. | 9916 Carver Road, Suite 104 | Blue Ash | OH | 45242 | (513) 206-9873 |
| Management Recruiters of Fairfield | 621 Mehring Way | Cincinnati | OH | 45202 | (513) 682-4020 |
| Oxford Search Group | 1101 St. Gregory St. | Cincinnati | OH | 45202 | (513) 322-1717 |
| 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 |
| Management Recruiters of Hudson | P.O. Box 464 | HUDSON | OH | 44236-0464 | (330) 357-4335 |
| 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 |
| 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 |
| Protis Global* | 1735 Market Street, Suite 200 | Philadelphia | PA | 19103 | (305) 424-8510 |
| 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 |
| Touchpoint Search | 162 Seven Farms Drive, Suite 235 | Charleston | SC | 29492 | (339) 224-6010 |
| The Q Works Group | 1057 RED VENTURES DR | FORT MILL | SC | 29707 | (803) 548-8140 |

EXHIBIT C-1 LIST OF ACTIVE FRANCHISEES

| | | | | | |
|---|----------------------------------|---------------|----|-------|----------------|
| Hunter/Freemon Group, LLC | 790 Wallace Pate Drive | Georgetown | SC | 29440 | (864) 201-8885 |
| 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 |
| BASI SOLUTIONS, LLC | 2010 Gregory Lake Road | North Augusta | SC | 29860 | (678) 480-4086 |
| 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 Lake Geneva | 1316 Ardmore Lane | Mount Juliet | TN | 37122 | (262) 348-0100 |
| Management Recruiters of Nashville | 4751 Trousdale Drive | Nashville | TN | 37220 | (615) 333-6067 |
| Siter-Neubauer & Associates | 1250 E. Copeland Road, Suite 740 | Arlington | TX | 76011 | (817) 989-9700 |
| 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 |
| Parkwood International | 7460 Warren Parkway, Suite 255 | FRISCO | TX | 75034 | (972) 668-9855 |
| Management Recruiters of Champions | 3220 FM 1960 West | Houston | TX | 77068 | (281) 580-6020 |
| The Fassino Group | 10480 Grant Road | Houston | TX | 77070 | (281) 571-3797 |
| CP & Krell Group | 809 Brookstone Ct | Keller | TX | 76248 | (817) 484-0187 |
| The Jacob Group | 6190 Virginia Parkway | McKinney | TX | 75071 | (214) 544-9030 |
| 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 |
| Sales Consultants of Provo* | 1428 E 840 North | Orem | UT | 84097 | (801) 434-9265 |

EXHIBIT C-1 LIST OF ACTIVE FRANCHISEES

| | | | | | |
|--|------------------------|-----------------|----|------------|----------------|
| Jamison Search International | 1428 East 840 North | Orem | UT | 84097 | (801) 434-9265 |
| ETS Recruit | 319 McClanahan St. SW | Roanoke | VA | 24014 | (540) 563-1688 |
| Management Recruiters of Fairfax | 2971 Valley Avenue | Winchester | VA | 22601 | (703) 395-3466 |
| 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 |
| The Zbitnoff Group | 8195 166TH AVENUE N.E. | REDMOND | WA | 98052 | (425) 883-1313 |
| 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 |
| Management Recruiters of Janesville | 7815 Longview Court | Edgerton | WI | 53534 | (608) 752-2125 |
| 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 |
| Management Recruiters of Wausau | 1725 N. 3rd Ave. | Wausau | WI | 54401 | (715) 842-1750 |
| The Brooke Group | 1041 Imperial Drive, | Morgantown | WV | 26508 | (304) 594-1890 |
| Constructive Hire | 769 N 4th St | Laramie | WY | 82072 | (307) 223-4199 |

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

EXHIBIT C-2 LIST OF DEPARTED FRANCHISEES

The following is a list of every franchisee who has ceased to do business under the franchise agreement or had an outlet terminated, cancelled, not renewed, or transferred during 2022, or who has not communicated with the franchisor within 10 weeks of the date of this franchise disclosure document.

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

| Former Member | City | State | Main Area Code |
|----------------------------|-----------------|--------------|-----------------------|
| Renuka Raj | Dublin | CA | 510.857.5856 |
| Michael Smith | Glendale | CA | 616.204.0406 |
| Maurice Meyer | Simi Valley | CA | 909.335.2055 |
| Justin Ball | Centennial | CO | 303.951.6375 |
| Joseph Mullings | Delray Beach | FL | 561.243.8883 |
| Del Diaz | Miami | FL | 305.264.4212 |
| Martin Gonzalez | Miami Lakes | FL | 305.676.2140 |
| Tim Tuttle | Clearwater | FL | 727.791.3277 |
| Doug Ralston | Woodstock | GA | 770.592.9550 |
| James Morse* | Honolulu | HI | 808.533.3282 |
| Brent Travis | Coeur D'Alene | ID | 208.667.7555 |
| Rande Martin | Richmond | IN | 765.935.3356 |
| Michael Reeves | Elgin | IL | 847.697.2201 |
| Philip Bertsch (Deceased)± | St. Louis | MO | 314.991.4355 |
| Bobby Ledbetter | Fayetteville | NC | 910.483.2555 |
| Allan Turner | Kinston | NC | 252.527.9191 |
| Sherri Seagroves | Mebane | NC | 336.597.4000 |
| Paul Kester | Wilmington | NC | 910.395.5516 |
| Ryan Carfley | Raleigh | NC | 800.875.6188 |
| Peggy Quinn | Charlotte | NC | 704.849.9200 |
| Dave Campeas* | Skillman | NJ | 609.924.3444 |
| Thomas Schneider | Albuquerque | NM | 505.346.4700 |
| Jim Jacobs | Franklin Square | NY | 516.599.5824 |
| Randy Strauss | Williamsville | NY | 716.631.3200 |
| Tim Coleman | Syracuse | NY | 315.451.9000 |
| Steve Komarek | West Mason | OH | 513.273.4222 |
| Ryan Hauger | Gibsonia | PA | 717.598.8449 |
| Frank Williamson | Murrysville | PA | 724.325.4011 |
| Edward Hatcher± | Cordova | TN | 901.432.1674 |
| Tyron McSwain | Nashville | TN | 615.751.0278 |
| Jeremy Vanselous | Cooleyville | TX | 940.580.2677 |
| Bill O'Malley | Crozet | VA | 801.251.1557 |
| Dennis Johnson | Gig Harbor | WA | 253.858.9991 |

EXHIBIT C-2 LIST OF DEPARTED FRANCHISEES

| | | | |
|---------------|-----------|----|--------------|
| Don Korthuis | Lynden | WA | 360.354.1100 |
| Douglas Smith | Shoreline | WA | 206.533.8000 |
| Sharon Hulce | Appleton | WI | 920.996.9700 |

* Member had multiple outlets

± Member sold business to new franchisee.

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 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.

HQ MRI CORPORATION
FRANCHISE DISCLOSURE DOCUMENT
EXHIBIT E
FINANCIAL STATEMENTS

- **HIREQUEST, INC. 2020 Consolidated Financial Statements**
- **HIREQUEST, INC. 2021 Consolidated Financial Statements**
- **HIREQUEST, INC. 2022 Consolidated Financial Statements**
- **HIREQUEST, INC. FORM E GUARANTEE OF PERFORMANCE**

EXHIBIT F-1

Form E – Guarantee of Performance

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 2023 Franchise Disclosure Document, as it may be amended, and as that Franchise Agreement may be entered into with franchisees and amended, modified or extended from time to time. This guarantee continues until all such obligations of the Franchisor under its franchise registrations and the Franchise Agreement are satisfied or until the liability of Franchisor to its franchisees under the Franchise Agreement has been completely discharged, whichever first occurs. The Guarantor is not discharged from liability if a claim by a franchisee against the Franchisor remains outstanding. Notice of acceptance is waived. The Guarantor does not waive receipt of notice of default on the part of the Franchisor. This guarantee is binding on the Guarantor and its successors and assigns.

The Guarantor signs this guarantee at 111 Springhall Drive, Goose Creek, SC, 29445 on the 16 day of January, 2023.

Guarantor: HireQuest, Inc.

By: 

Name: John D. McAnnar

Title: Chief Legal Officer

To the Stockholders and Board of Directors of HireQuest, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of HireQuest, Inc. (the "Company") as of December 31, 2020 and 2019, the related statements of operations, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

Critical Audit Matters

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

Note Receivable Allowance for Losses— Refer to Notes 1 and 14 to the financial statements

Critical Audit Matter Description

The Company's evaluation of the adequacy of its allowance for losses on notes receivable includes an assessment of the creditworthiness of individual note holders and the underlying collateral value. The Company reports notes receivables at the principal balance outstanding less an allowance for losses, with interest charged to individual note holders at a fixed rate over the life of the receivable. Notes are generally secured by the assets of each location and ownership interests in the franchise or operating entity. The Company monitors the financial condition of the note holders and records provisions for estimated losses when they believe it is probable that the franchisees will be unable to make required payments. The notes receivable balance as of December 31, 2020 was \$8,065,528, inclusive of an allowance for losses on notes receivable of \$1,598,672.

We identified the allowance for losses as a critical accounting matter because of the significant estimates and assumptions management makes to estimate the allowance for losses on notes receivables and the subjectivity of the calculation. As a result, performing audit procedures to evaluate the reasonableness of management's estimates and assumptions related to a note holder's creditworthiness and estimates of future cash flows and collateral value required a high degree of auditor judgement and an increased extent of effort.

How the Critical Audit Matter Was Addressed in the Audit

Out audit procedures related to the evaluation of the reasonableness of the notes receivable allowance for losses included the following, among others:

- We obtained an understanding of the process and evaluated the design and implementation of controls relating to management's determination of the allowance for losses and impairment of notes receivable.
- We evaluated management's determination of quantitative and qualitative factor adjustments to the allowance, which included reviewing note holder financial projections and the consistency of application of quantitative and qualitative factors, and evaluation thereof.
- We assessed overall trends in credit quality of note holders and historical payment experience.
- We evaluated the accuracy and adequacy of the related financial statement disclosures.

Workers' Compensation Claims Liability — Refer to Notes 1 and 6 to the financial statements

Critical Audit Matter Description

The Company's workers' compensation claims liability is based on estimated future costs to be incurred by the Company. The liability includes claims that have been reported but not settled, as well as claims that have been incurred but not reported. Annually, the Company utilizes third party actuarial estimates of future costs of the claims discounted by a present value interest rate to estimate the amount of the reserves. If the actual costs of the claims exceed the amount estimated, additional reserves may be required. The workers' compensation claims liability balance as of December 31, 2020 was \$4,584,068.

We identified the workers' compensation claims liability as a critical accounting matter because of the significance of the assumptions used in the actuarial estimates of the liability for workers' compensation claims and consideration of the completeness of information provided to the third-party actuarial firm. As a result, performing audit procedures to evaluate the reasonableness of estimates and assumptions related to the adequacy of the workers' compensation liability required a high degree of auditor judgement and an increased extent of effort.

How the Critical Audit Matter Was Addressed in the Audit

Out audit procedures related to the evaluation of the reasonableness of the workers' compensation claim liability included the following, among others:

- We obtained an understanding of the process and evaluated the design and implementation of controls relating to management's determination of the workers' compensation claim liability.
- We assessed the professional qualifications of the third-party actuary including their independence, experience, and certifications.
- We obtained and reviewed the independent actuarial report and gained an understanding from the actuary of the objectives and scope of their work, and we evaluated the consistency of methods and assumptions used in the current year as compared to previous years.
- We discussed the valuation model, data inputs, assumptions, calculations, and results directly with the third-party actuary.
- We analytically considered balances in relation to prior years and activity that took place during the year.
- We tested the completeness, integrity, and accuracy of the underlying data used by the third-party actuary as part of the actuarial valuation.
- We evaluated adjustments made by management to the model.

/s/ Plante & Moran, PLLC

We have served as the Company's auditor since 2017.

Denver, Colorado

March 25, 2021

HireQuest, Inc.
Consolidated Balance Sheets

| ASSETS | December 31, 2020 | December 31, 2019 |
|---|----------------------|----------------------|
| Current assets | | |
| Cash | \$ 13,667,434 | \$ 4,187,450 |
| Accounts receivable, net of allowance for doubtful accounts | 21,344,499 | 28,201,279 |
| Notes receivable | 2,178,299 | 3,419,458 |
| Prepaid expenses, deposits, and other assets | 344,091 | 188,560 |
| Prepaid workers' compensation | 1,434,583 | 822,938 |
| Other assets | - | 201,440 |
| Total current assets | <u>38,968,906</u> | <u>37,021,125</u> |
| Property and equipment, net | 3,193,379 | 1,900,686 |
| Workers' compensation claim payment deposit | 623,452 | - |
| Deferred tax asset | 79,379 | - |
| Intangible assets, net | 342,697 | - |
| Notes receivable, net of current portion and reserve | 5,887,229 | 7,990,251 |
| Total assets | <u>\$ 49,095,042</u> | <u>\$ 46,912,062</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 457,490 | \$ 253,845 |
| Other current liabilities | 1,322,764 | 1,893,846 |
| Accrued benefits and payroll taxes | 743,431 | 1,113,904 |
| Due to affiliates | 67,398 | - |
| Due to franchisees | 3,228,777 | 3,610,596 |
| Risk management incentive program liability | 858,482 | 1,811,917 |
| Workers' compensation claims liability | 2,777,734 | 2,327,869 |
| Total current liabilities | <u>9,456,076</u> | <u>11,011,977</u> |
| Workers' compensation claims liability, net of current portion | 1,806,334 | 1,516,633 |
| Franchisee deposits | 1,468,359 | 1,412,924 |
| Deferred tax liability | - | 1,688,446 |
| Total liabilities | <u>12,730,769</u> | <u>15,629,980</u> |
| Commitments and contingencies (Note 12) | | |
| 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; 13,628,675 and 13,518,036 shares issued, respectively | 13,629 | 13,518 |
| Additional paid-in capital | 28,811,389 | 27,584,610 |
| Treasury stock, at cost - 33,092 and -0- shares, respectively | (146,465) | - |
| Retained earnings | 7,685,720 | 3,683,954 |
| Total stockholders' equity | <u>36,364,273</u> | <u>31,282,082</u> |
| Total liabilities and stockholders' equity | <u>\$ 49,095,042</u> | <u>\$ 46,912,062</u> |

See accompanying notes to consolidated financial statements.

HireQuest, Inc.
Consolidated Statements of Operations

| | Year ended | |
|---|----------------------|----------------------|
| | December 31, 2020 | December 31, 2019 |
| Franchise royalties | \$ 12,792,793 | \$ 14,673,636 |
| Service revenue | 1,016,332 | 1,202,824 |
| Total revenue | 13,809,125 | 15,876,460 |
| Selling, general and administrative expenses | 8,700,446 | 12,692,297 |
| Depreciation and amortization | 129,182 | 400,132 |
| Income from operations | 4,979,497 | 2,784,031 |
| Other miscellaneous income | 1,170,619 | 751,077 |
| Interest and other financing expense | (49,664) | (559,585) |
| Net income before income taxes | 6,100,452 | 2,975,523 |
| Provision for income taxes | 741,038 | 3,480,996 |
| Income (loss) from continuing operations | 5,359,414 | (505,473) |
| Income from discontinued operations, net of tax | - | 215,494 |
| Net income (loss) | <u>\$ 5,359,414</u> | <u>\$ (289,979)</u> |
| Basic earnings (loss) per share | | |
| Continuing operations | \$ 0.40 | \$ (0.05) |
| Discontinued operations | - | 0.02 |
| Total | <u>\$ 0.40</u> | <u>\$ (0.03)</u> |
| Diluted earnings (loss) per share | | |
| Continuing operations | \$ 0.39 | \$ (0.05) |
| Discontinued operations | - | 0.02 |
| Total | <u>\$ 0.39</u> | <u>\$ (0.03)</u> |
| Weighted average shares outstanding | | |
| Basic | 13,542,403 | 11,588,776 |
| Diluted | 13,654,128 | 11,588,776 |

See accompanying notes to consolidated financial statements.

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

| | Common stock | | Treasury Stock | Additional paid-in | Retained | Total stockholders' |
|---|--------------|-----------|----------------|--------------------|--------------|---------------------|
| | Shares | Par value | Amount | capital | earnings | equity |
| Balance at December 31, 2018 | 9,939,668 | \$ 9,940 | \$ - | \$ 6,938,953 | \$ 3,973,933 | \$ 10,922,826 |
| Net contributions | - | - | - | 1,155,907 | - | 1,155,907 |
| Merger with Command Center, Inc. | 4,677,487 | 4,677 | - | 26,937,648 | - | 26,942,325 |
| Stock-based compensation | - | - | - | 683,639 | - | 683,639 |
| Restricted common stock granted for services | 250,000 | 250 | (250) | - | - | - |
| Common stock issued for services | 14,035 | 14 | - | 74,399 | - | 74,413 |
| Common stock issued for the exercise of options | 31,667 | 32 | - | 161,845 | - | 161,877 |
| Common stock purchased and retired | (1,394,821) | (1,395) | - | (8,367,531) | - | (8,368,926) |
| Net loss for the year | - | - | - | - | (289,979) | (289,979) |
| Balance at December 31, 2019 | 13,518,036 | 13,518 | - | 27,584,610 | 3,683,954 | 31,282,082 |
| Stock-based compensation | - | - | - | 1,226,890 | - | 1,226,890 |
| Cash dividends | - | - | - | - | (1,357,648) | (1,357,648) |
| Restricted common stock granted for services | 110,639 | 111 | - | (111) | - | - |
| Purchase of treasury stock | - | - | (146,465) | - | - | (146,465) |
| Net income | - | - | - | - | 5,359,414 | 5,359,414 |
| Balance at December 31, 2020 | 13,628,675 | \$ 13,629 | \$ (146,465) | \$ 28,811,389 | \$ 7,685,720 | \$ 36,364,273 |

See accompanying notes to consolidated financial statements.

HireQuest, Inc.
Consolidated Statement of Cash Flow

| | Twelve months ended | |
|---|----------------------|----------------------|
| | December 31, 2020 | December 31, 2019 |
| Cash flows from operating activities | | |
| Net income (loss) | \$ 5,359,414 | \$ (289,979) |
| Income from discontinued operations | - | (215,494) |
| Net income (loss) from continuing operations | 5,359,414 | (505,473) |
| Adjustments to reconcile net income to net cash used in operations: | | |
| Depreciation and amortization | 129,182 | 400,132 |
| Allowance for losses on notes receivable | 1,598,673 | - |
| Stock based compensation | 1,226,890 | 758,053 |
| Deferred taxes | (1,767,825) | (1,242,501) |
| Gain on disposition of property and equipment | - | (174,626) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 6,856,780 | (7,476,109) |
| Prepaid expenses, deposits, and other assets | (778,983) | 1,588,118 |
| Prepaid workers' compensation | (611,645) | (334,177) |
| Due from affiliates | - | 218,018 |
| Accounts payable | 203,645 | 200,411 |
| Risk management incentive program liability | (953,435) | (40,411) |
| Other current liabilities | (571,082) | (203,153) |
| Accrued benefits and payroll taxes | (370,473) | (1,402,184) |
| Due to franchisees | (381,819) | 1,180,148 |
| Workers' compensation claim payment deposit | (623,452) | - |
| Workers' compensation claims liability | 739,566 | 2,004,591 |
| Net cash provided by (used in) operating activities - continuing operations | 10,678,888 | (5,029,163) |
| Net cash used in operating activities - discontinued operations | 201,440 | 9,986,976 |
| Net cash provided by operating activities | 10,880,328 | 4,957,813 |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (1,421,875) | (507,602) |
| Proceeds from the sale of property and equipment | - | 735,537 |
| Investment in intangible assets | (342,697) | - |
| Proceeds from payments on notes receivable | 2,075,590 | 3,563,011 |
| Cash acquired in acquisition | - | 5,376,543 |
| Cash issued for notes receivable | (330,082) | - |
| Net change in franchisee deposits | 55,435 | 645,416 |
| Net cash provided by investing activities | 36,371 | 9,812,905 |
| Cash flows from financing activities | | |
| Net change in line of credit | - | 712,354 |
| Payments to affiliates | - | (5,535,797) |
| Proceeds from affiliates | 67,398 | - |
| Purchase of treasury stock | (146,465) | (8,368,926) |
| Payment of dividends | (1,357,648) | - |
| Net contributions by Legacy HQ members | - | 1,155,907 |
| Proceeds from the conversion of stock options | - | 161,877 |
| Net cash used in financing activities | (1,436,715) | (11,874,585) |
| Net increase in cash | 9,479,984 | 2,896,133 |
| Cash, beginning of period | 4,187,450 | 1,291,317 |
| Cash, end of period | \$ 13,667,434 | \$ 4,187,450 |
| Supplemental disclosure of non-cash investing and financing activities | | |
| Stock issued for acquisition | - | 26,942,325 |
| Notes receivable issued for the sale of branches | - | 14,887,220 |
| Accounts receivable received for the sale of branches | - | 2,204,286 |
| Supplemental disclosure of cash flow information | | |
| Interest paid | 49,664 | 559,585 |
| Income taxes paid | 2,815,745 | 1,819,344 |

See accompanying notes to consolidated financial statements.

Note 1 – Overview and Summary of Significant Accounting Policies

Nature of Business

HireQuest, Inc. ("HQI," the "Company," "we," "us," or "our") is a nationwide franchisor of offices providing on-demand labor solutions in the light industrial and blue-collar segments of the staffing industry. Our franchisees provide various types of temporary personnel through two business models operating under the trade names "HireQuest Direct," previously known as "Trojan Labor," and "HireQuest," previously known as "AcruX Staffing." HireQuest Direct specializes primarily in unskilled and semi-skilled industrial and construction personnel. HireQuest specializes primarily in skilled and semi-skilled industrial personnel as well as clerical and administrative personnel.

As of December 31, 2020 we had 139 franchisee-owned offices in 30 states and the District of Columbia. We are the employer of record to approximately 57,000 employees annually, who in turn provide services for thousands of clients in various industries including construction, recycling, warehousing, logistics, auctioneering, manufacturing, hospitality, landscaping, and retail. We provide staffing, marketing, funding, software, and administrative services to our franchisees. On September 29, 2019, we finalized the conversion of the last of our company-owned offices to franchisee-owned offices. Between July 15, 2019 and that date, we also owned and operated offices.

HQI is the product of a merger between Command Center, Inc. ("Command Center"), and Hire Quest Holdings, LLC, ("Hire Quest Holdings"). We refer to Hire Quest Holdings collectively with its wholly-owned subsidiary, Hire Quest, LLC, as "Legacy HQ." We refer to this merger, which closed on July 15, 2019, as the "Merger." Upon the closing of the Merger, all of the ownership interests in Legacy HQ were converted into the right to receive an aggregate number of shares representing 68% of the total shares of the Company's common stock outstanding immediately after the Merger. Because the Legacy HQ security holders received a majority of the equity securities and voting rights of the combined company upon the closing of the Merger, Legacy HQ is considered to be the accounting acquirer. This means that Legacy HQ will allocate the purchase price to the fair value of Command Center's assets acquired and liabilities assumed on the acquisition date. This also means that Legacy HQ's historical financial statements replace Command Center's historical financial statements following the completion of the Merger, and the results of operations of both companies are included in our financial statements for all periods subsequent to the Merger. For additional information related to the Merger, see *Note 2 – Acquisitions*.

Basis of Presentation

We have prepared the accompanying consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In the opinion of management, the accompanying consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair presentation of the results for the periods presented.

Consolidation

The consolidated financial statements include the accounts of HQI and all of its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated.

U.S. GAAP requires the primary beneficiary of a variable interest entity (a "VIE"), to consolidate that entity. To be the primary beneficiary of a VIE, an entity must have both the power to direct the activities that most significantly impact the VIE's economic performance, and the obligation to absorb losses or the right to receive benefits from the VIE that are significant to it. We provide acquisition financing to some of our franchisees that results in some of them being considered a VIE. We have reviewed these franchisees and determined that we are not the primary beneficiary of any of these entities, and accordingly, these entities have not been consolidated.

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus disease ("COVID-19") was first reported in Wuhan, China. Less than four months later, on March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The extent of COVID-19's ultimate effect on our operational and financial performance and the collectability of our notes receivable will depend on future developments, including the duration, spread, and intensity of the pandemic, and the efficacy, availability and distribution of vaccines, all of which are uncertain and difficult to predict. As a result, it is not currently possible to ascertain the overall impact of COVID-19 on our business. However, the pandemic has so far had a material adverse effect on our business and results of operations. If the pandemic continues to be a severe worldwide health crisis, it could continue to have a material adverse effect on our future business, results of operations, financial condition, and cash flows.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from those estimates.

Significant estimates and assumptions underlie our workers' compensation claim liabilities, our workers' compensation Risk Management Incentive Program, our deferred taxes, and estimated fair value of assets and liabilities acquired.

Revenue Recognition

Our primary source of revenue comes from royalty fees based on the operation of our franchised offices. Royalty fees from our HireQuest Direct business line are based on a percentage of sales for services our franchisees provide to customers and usually range from 5% to 8%. Royalty fees from our HireQuest business line are 4.5% of the payroll we fund plus 18% of the gross margin for the territory. Revenue is presented on a net basis as agent as opposed to a gross basis as principal, and recognized when we satisfy our performance obligations. Our performance obligations take the form of a franchise license and promised services. Promised services consist primarily of paying temporary employees, completing all payroll related statutory obligations, and providing workers' compensation insurance. Because these performance obligations are interrelated, we do not consider them to be individually distinct and therefore account for them as a single performance obligation. Because our franchisees receive and consume the benefits of our services simultaneously, our performance obligations are satisfied when our services are provided. Franchise royalties are billed on a weekly basis. We also offer various incentive programs for franchisees including royalty incentives and other support initiatives. Royalty fees are reduced to reflect any royalty incentives earned or granted under these programs. Additionally, we provide franchise royalty credits and incentives. These credits and incentives are provided to drive new location development, organic growth, and to limit workers' compensation exposure. Franchise royalty fees are presented net of these credits and incentives.

Service revenue consists of interest we charge our franchisees on overdue customer accounts receivable and other miscellaneous fees for optional services we provide. Interest income is recognized based on the effective interest rate applied to the outstanding principal balance. Revenue for optional services is recognized as services are provided.

Below are summaries of our revenue disaggregated by brand:

| | Year ended | |
|------------------|----------------------|----------------------|
| | December 31, 2020 | December 31, 2019 |
| HireQuest Direct | \$ 12,063,963 | \$ 13,644,786 |
| HireQuest | 728,829 | 1,028,850 |
| Total | \$ 12,792,792 | \$ 14,673,636 |

Workers' Compensation Claims Liability

We maintain reserves for workers' compensation claims based on their estimated future cost. These reserves include claims that have been reported but not settled, as well as claims that have been incurred but not reported. Annually, we engage an independent actuary to estimate the future costs of these claims. Quarterly, we use development factors provided by an independent actuary to estimate the future costs of these claims. We make adjustments as necessary. If the actual costs of the claims exceed the amount estimated, we may incur additional charges.

Workers' compensation Risk Management Incentive Program ("RMIP")

Our RMIP is designed to incentivize our franchisees to keep our temporary employees safe and control exposure to large workers' compensation claims. We accomplish this by paying our franchisees an amount equivalent to a percentage of the amount they pay for workers' compensation insurance if they keep their workers' compensation loss ratios below specified thresholds.

Notes Receivable

Notes receivable consist primarily of amounts due to us related to the financing of franchised locations. We report notes receivable at the principal balance outstanding less an allowance for losses. We charge interest at a fixed rate and interest income is calculated by applying the effective rate to the outstanding principal balance. Notes receivable are generally secured by the assets of each location and the ownership interests in the franchise. We monitor the financial condition of our franchisees and record provisions for estimated losses when we believe it is probable that our franchisees will be unable to make their required payments. We evaluate the potential impairment of notes receivable based on various analyses, including estimated discounted future cash flows, at least annually and whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When a note receivable is deemed impaired, we discontinue accruing interest and only recognize interest income when payment is received. Our allowance for losses on notes receivable was approximately \$1.6 million and \$-0- at December 31, 2020 and December 31, 2019, respectively.

Stock-Based Compensation

Periodically, we issue restricted common shares or options to purchase our common shares to our officers, directors, or employees. We measure compensation costs for equity awards at their fair value on their grant date and expense these costs over the service period on a straight-line basis. The fair value of stock awards is based on the quoted price of our common stock on the grant date. The fair value of option awards is determined using the Black-Scholes valuation model.

Intangible Assets – Internal Use Software

We capitalize costs to develop or purchase computer software for internal use which are incurred during the application development stage. These costs include fees paid to third parties for development services and payroll costs for employees' time spent developing the software. We expense costs when incurred during the preliminary project stage and the post-implementation stage.

Capitalized development costs will be amortized on a straight-line basis over the estimated useful life of the software. The capitalization and ongoing assessment of recoverability of development costs requires considerable judgment by management with respect to certain external factors, including, but not limited to, technological and economic feasibility, and estimated economic life.

Provision for Income Taxes

We account for provision (benefit) for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which we expect to recover or settle those deferred amounts. We record valuation allowances for deferred tax assets that more likely than not will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We have analyzed our filing positions in all jurisdictions where we are required to file returns and found no positions that would require a liability for unrecognized income tax positions to be recognized. If we are assessed penalties and/or interest, penalties will be charged to selling, general, and administrative expense and interest will be charged to interest expense.

The Work Opportunity Tax Credit ("WOTC") is a source of fluctuation in our effective income tax rate. The WOTC is designed to encourage the hiring of workers from certain disadvantaged targeted categories and is generally calculated as a percentage of wages over a twelve month period up to worker maximum by targeted category. We estimate the amount of WOTC we expect to receive based on wages certified in the current period.

Business Combinations

We account for business acquisitions under the acquisition method of accounting by recognizing identifiable tangible and intangible assets acquired, liabilities assumed, and non-controlling interests in the acquired business at their fair values. We record the portion of the purchase price that exceeds the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed as goodwill. We expense acquisition related costs as we incur them.

Earnings per Share

We calculate basic earnings (loss) per share by dividing net income or loss available to common stockholders by the weighted average number of common shares outstanding. We do not include the impact of any potentially dilutive common stock equivalents in our basic earnings (loss) per share calculations. Diluted earnings per share reflect the potential dilution of securities that could share in our earnings through the conversion of common shares issuable via outstanding stock options and unvested restricted shares, except where their inclusion would be anti-dilutive. Outstanding common stock equivalents at December 31, 2020 and December 31, 2019 totaled approximately 308,000 and 244,000, respectively.

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

| | Year ended | |
|--|----------------------|----------------------|
| | December 31, 2020 | December 31, 2019 |
| Weighted average number of common shares used in basic net income per common share | 13,542,403 | 11,588,776 |
| Dilutive effects of stock options and unvested restricted stock | 111,725 | - |
| Weighted average number of common shares used in diluted net income per common share | 13,654,128 | 11,588,776 |

Property and Equipment

We record property and equipment at cost. We compute depreciation using the straight-line method over the estimated useful lives. Land is not depreciated. Repairs and maintenance are expensed as incurred. When assets are sold or retired, we eliminate cost and accumulated depreciation from the consolidated balance sheet and reflect a gain or loss in the consolidated statement of income. The estimated useful lives of property and equipment are as follows:

- Buildings – 40 years
- Building improvements – 15 years
- Computers, furniture, and equipment – 5 to 7 years.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist of amounts due for labor services from customers of franchises and of previously company-owned offices. At December 31, 2020 and December 31, 2019, substantially all of our accounts receivable were due from franchises.

We own the accounts receivable from labor services provided by our franchisees. Accounts receivable that age beyond 84 days are charged back to our franchisees. Accordingly, we do not record an allowance for doubtful accounts on these accounts receivable.

For labor services provided by previously company-owned offices, we record accounts receivable at face value less an allowance for doubtful accounts. We determine the allowance for doubtful accounts based on historical write-off experience, the age of the receivable, other qualitative factors and extenuating circumstances, and current economic data which represents our best estimate of the amount of probable losses on these accounts receivable, if any. We review the allowance for doubtful accounts periodically and write off past due balances when it is probable that the receivable will not be collected. Our allowance for doubtful accounts on accounts receivable generated by company-owned offices was approximately \$77,000 and \$168,000 at December 31, 2020 and December 31, 2019, respectively.

Advertising and Marketing Costs

We expense advertising and marketing costs as we incur them. These costs were \$33,000 and \$449,000 in 2020, and 2019, respectively. The expense in 2019 included rebranding expenses incurred in relation to the Merger. These costs are included in general and administrative expenses.

Fair Value Measures

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in the principal or most advantageous market for the asset or liability in an ordinary transaction between market participants on the measurement date. Our policy on fair value measures requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The policy establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The policy prioritizes the inputs into three levels that may be used to measure fair value:

Level 1: Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2: Applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3: Applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and all other current liabilities approximate fair values due to their short-term nature. The fair value of notes receivable approximates the outstanding principal balance and are reviewed for impairment at least annually. The fair value of impaired notes receivable are determined based on estimated future payments discounted back to present value using the notes effective interest rate.

| | Level | Fair value | |
|-----------------------------|-------|-------------------|-------------------|
| | | December 31, 2020 | December 31, 2019 |
| Cash | 1 | \$ 13,667,434 | \$ 4,187,450 |
| Notes receivable | 2 | 7,618,494 | 11,409,709 |
| Notes receivable - impaired | 3 | 447,034 | - |
| Accounts receivable | 2 | 21,344,499 | 28,201,279 |

For the Level 3 assets measured at fair value on a non-recurring basis at December 31, 2020, the significant unobservable inputs include the notes effective interest rate of 10%.

Discontinued Operations

During the quarter ended September 29, 2019, we sold substantially all of the offices acquired in the Merger. Accordingly, the assets and liabilities, operating results, and cash flows for these businesses are presented as discontinued operations, separate from our continuing operations, for all periods presented in our consolidated financial statements and footnotes, unless indicated otherwise.

Savings Plan

We have a savings plan that qualifies under Section 401(k) of the Internal Revenue Code. Under our 401(k) plan, eligible employees may contribute a portion of their pre-tax earnings, subject to certain limitations. As a benefit, we match 100% of each employee's first 3% of contributions, then 50% of each employee's contribution beyond 3%, up to a maximum match of 4% of the employee's eligible earnings. Matching expense related to our savings plan totaled approximately \$23,000 and \$0- during the years ended December 31, 2020 and December 31, 2019, respectively

Recently Adopted Accounting Pronouncements

There were no new accounting pronouncements, issued or effective during the year, adopted during the year.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The standard significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard will replace today's "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. This guidance is effective for annual periods beginning after December 15, 2022, and interim periods therein. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods therein. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The standard was issued as a means to reduce the complexity of accounting for income taxes for those entities that fall within the scope of the accounting standard. The guidance is to be applied using a prospective method, excluding amendments related to franchise taxes, which should be applied on either a retrospective basis for all periods presented or a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. We are currently evaluating the impacts of adoption of the new guidance to our consolidated financial statements.

We do not expect other accounting standards that the FASB or other standards-setting bodies have issued to have a material impact on our financial position, results of operations, or cash flows.

Note 2 – Acquisitions

On July 15, 2019, Command Center completed its acquisition of Legacy HQ. Upon the closing of the Merger, all of the membership interests in Hire Quest Holdings, LLC were converted into the right to receive 68% of the Company's common stock outstanding immediately after the closing, or 9,939,668 shares.

We accounted for the Merger as a reverse acquisition. As such, Legacy HQ is considered the accounting acquirer and Legacy HQ's historical financial statements replace Command Center's historical financial statements following the completion of the Merger. The results of operations of the combined company are included in our financial statements for all periods beginning July 15, 2019.

The fair value of the purchase consideration is calculated based on the Company's stock price on the NASDAQ exchange as it is considered to be more reliable than the fair value of the membership interests a private company, Legacy HQ. Consideration is calculated based on the Company's closing share price of \$5.76 on July 15, 2019.

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

| | | |
|--------------------------------------|----|-------------------|
| Closing share price on July 15, 2019 | \$ | 5.76 |
| Common stock | | 4,677,487 |
| Stock consideration | \$ | <u>26,942,325</u> |
| Accounts receivable | \$ | 10,480,907 |
| Cash and cash equivalents | | 5,376,543 |
| Identifiable intangible assets | | 17,015,857 |
| Other current assets | | 725,453 |
| Property, plant and equipment, net | | 281,186 |
| Right-of-use asset | | 1,642,695 |
| Current liabilities | | (3,124,081) |
| Lease liabilities | | (1,624,461) |
| Deferred tax liability | | (2,930,947) |
| Other liabilities | | (900,827) |
| Purchase price allocation | \$ | <u>26,942,325</u> |

The following table presents the unaudited pro forma information assuming the Merger occurred on January 1, 2018. The unaudited pro forma information is not necessarily indicative of the results of operations that would have been achieved if the acquisition had taken place on that date.

| | Year ended | |
|---|-------------------|-------------------|
| | December 31, 2020 | December 31, 2029 |
| Royalty revenue | \$ 12,792,793 | \$ 16,176,219 |
| Net income | 5,359,414 | 5,090,045 |
| Basic earnings per share | \$ 0.40 | \$ 0.38 |
| Basic weighted average shares outstanding | 13,542,403 | 13,294,201 |
| Diluted earnings per share | \$ 0.39 | \$ 0.38 |
| Diluted weighted average shares outstanding | 13,654,128 | 13,294,736 |

Note 3 – Discontinued Operations

Prior to October 2019, we operated a number of company-owned offices which were acquired in the Merger with Command Center. All of these company-owned offices were sold in the third quarter of 2019, the vast majority becoming franchisees, and we now no longer operate any company-owned offices. We also made the strategic decision to sell the assets of Command Center's four California offices outside of our franchise system to an unaffiliated third party, and we no longer conduct business in the state of California. A summary of total consideration received, and assets sold is as follows:

| | | |
|----------------------------|----|-------------------|
| Notes receivable | \$ | 14,884,620 |
| Accounts receivable | | 2,204,286 |
| Cash | | 221,845 |
| Consideration received | \$ | <u>17,310,751</u> |
| Customer lists | \$ | 17,015,857 |
| Lease and utility deposits | | 100,009 |
| Fixed assets | | 57,448 |
| Gain | | 137,437 |
| Sale price allocation | \$ | <u>17,310,751</u> |

Operating results from company-owned offices are included in our consolidated financial statements as discontinued operations. The income from discontinued operations as reported on our consolidated statements of operations was comprised of the following amounts:

| | Year ended | |
|---|----------------------|----------------------|
| | December 31, 2020 | December 31, 2019 |
| Revenue | \$ - | \$ 13,932,769 |
| Cost of staffing services | - | 9,946,836 |
| Gross profit | - | 3,985,933 |
| Gain on sale | - | 137,437 |
| Selling, general and administrative expense | - | (3,836,045) |
| Net income before tax | - | 287,325 |
| Provision for income taxes | - | 71,831 |
| Net income | <u>\$ -</u> | <u>\$ 215,494</u> |

We continue to be involved with the offices we sold through franchise agreements. The term of our franchise agreement is five years, subject to renewal at the end of the current term. Franchise royalties from sold locations that subsequently became franchisees were approximately \$3.0 million and \$1.4 million, for the years ended December 31, 2020 and December 31, 2019, respectively.

Note 4 – Related Party Transactions

Some significant shareholders of HQL also own portions of Hire Quest Financial, LLC; Hirequest Insurance Company; Brave New World Services, LLC, formerly known as Hire Quest LTS, LLC; Jackson Insurance Agency, Bass Underwriters, Inc.; Insurance Technologies, Inc.; and a number of our franchisees.

Hire Quest Financial LLC ("HQF")

Richard Hermanns, our CEO, Chairman of our Board, and most significant stockholder, and Edward Jackson, a member of our Board and a significant stockholder, own a majority of HQF, a financial services entity. HQF liquidated in 2020.

On July 14, 2019, Legacy HQ conveyed approximately \$2.2 million of accounts receivable to HQF. These transfers were used to pay down intercompany debt obligations. The intercompany debt was entirely extinguished prior to the Merger. At December 31, 2020 and December 31, 2019, HQI was not indebted to HQF for any amount. We do not have any current or planned business dealings with HQF.

Hirequest Insurance Company ("HQ Ins.")

Mr. Hermanns, his wife, his adult daughter, a trust established for the benefit of his children, and Mr. Jackson, collectively own a majority of HQ Ins., a North Carolina protected cell captive insurance company. HQ Ins. is currently running off all existing claims and has no intention of continuing business thereafter.

Effective March 1, 2010, Hire Quest, LLC purchased a deductible reimbursement insurance policy from HQ Ins. to cover losses up to the \$500,000 per claim deductible on the Hire Quest, LLC high-deductible workers' compensation policy. Hire Quest, LLC terminated its policy with HQ Ins. on July 15, 2019 upon the closing of the Merger.

Premiums invoiced by HQ Ins. to HQI and Legacy HQ for workers compensation deductible reimbursement insurance during the years ended December 31, 2020 and December 31, 2019 were \$-0- and approximately \$3.6 million, respectively. We do not have any current or planned business dealings with HQ Ins. other than cooperating to close Legacy HQ's workers' compensation claims.

Brave New World Services, LLC, formerly known as Hire Quest LTS ("BNW")

Mr. Jackson and an immediate family member of Mr. Hermanns collectively own a majority of BNW.

Historically, BNW employed the personnel at Legacy HQ headquarters. HQI terminated this relationship on July 15, 2019 upon the closing of the Merger. Amounts invoiced by BNW to HQI and Legacy HQ for payroll services during the years ended December 31, 2020 and December 31, 2019 were approximately \$-0- and \$19,000, respectively. We do not have any current or planned business dealings with BNW which now serves as a management company for the Worlds Franchisees (defined below), other than interactions as franchisor and franchisee representative.

Jackson Insurance Agency ("Jackson Insurance") and Bass Underwriters, Inc. ("Bass")

Mr. Jackson and an immediate family member own Jackson Insurance. Mr. Jackson, Mr. Hermanns, and irrevocable trusts set up by each of them, collectively own a majority of Bass, a large managing general agent.

Jackson Insurance and Bass brokered Legacy HQ's property, casualty, general liability, and cybersecurity insurance prior to the Merger. Since July 15, 2019, they have continued to broker these same policies for HQI. Jackson Insurance also brokers certain insurance policies on behalf of some of our franchisees, including the Worlds Franchisees (defined below).

Premiums, taxes, and fees invoiced by Jackson Insurance and Bass to HQI and Legacy HQ for these insurance policies during the years ended December 31, 2020 and December 31, 2019 were approximately \$726,000 and \$613,000, respectively. Jackson Insurance and Bass do not retain the majority of the premiums invoiced to HQI and Legacy HQ, but they do retain a commission of approximately 9% - 15% of premiums.

Insurance Technologies, Inc. ("Insurance Technologies")

Mr. Jackson, Mr. Hermanns, and irrevocable trusts set up by each of them, collectively own a majority of Insurance Technologies, an IT development and security firm. On October 24, 2019, HQI entered into an agreement with Insurance Technologies to add certain cybersecurity protections to our existing information technology systems and to assist in developing future information technology systems within our HQ Webconnect software. This arrangement was reviewed and approved by the Audit Committee of our Board of Directors and is monitored by the Audit committee on an ongoing basis.

During the years ended December 31, 2020 and December 31, 2019, Insurance Technologies invoiced HQI approximately \$188,000 and \$60,000 for services provided pursuant to this agreement, respectively.

The Worlds Franchisees

Mr. Hermanns and Mr. Jackson have direct or indirect ownership interests in certain of our franchisees (the "Worlds Franchisees"). There were 21 Worlds Franchisees at December 31, 2020 that operated 49 of our 139 offices. There were 20 Worlds Franchisees that operated 57 of our 147 offices at December 31, 2019.

Balances regarding the Worlds Franchisees are summarized below:

| | December 31, 2020 | December 31, 2019 |
|---|----------------------|----------------------|
| Due to franchisee | \$ 435,072 | \$ 993,495 |
| Risk management incentive program liability | 499,199 | 1,027,960 |

Transactions regarding the Worlds Franchisees are summarized below:

| | Year ended | |
|----------------------|----------------------|----------------------|
| | December 31, 2020 | December 31, 2019 |
| Franchisee royalties | \$ 4,897,445 | \$ 6,964,690 |

Note 5 – Line of Credit

In July 2019, we entered into an agreement with Truist, for a \$30 million line of credit with a \$15 million sublimit for letters of credit. At December 31, 2020, approximately \$9.1 million was utilized by outstanding letters of credit that secure our obligations to our workers' compensation insurance carrier, \$500,000 was utilized by a letter of credit that secures our paycard funding account, leaving \$20.4 million available under the agreement for potential additional borrowings. For additional information related to the letter of credit securing our workers' compensation obligations see *Note 6 – Workers' Compensation Insurance and Reserves*.

This line of credit is scheduled to mature on May 31, 2024. The current agreement bears interest at a variable rate equal to the Daily One Month London Interbank Offering Rate, or LIBOR, plus a margin between 1.25% and 1.75%. The margin is determined based on the value of our net collateral, which is equal to our total collateral plus unrestricted cash less the outstanding balance, if any, under the loan agreement. At December 31, 20 the effective interest rate was 1.6%. A non-use fee of between 0.125% and 0.250% will accrue on the unused portion of the line of credit. As collateral for repayment of any and all obligations under this agreement, we granted Truist a security interest in substantially all of our operating assets and the operating assets of our subsidiaries. This agreement, and other loan documents, contain customary events of default and negative covenants, including but not limited to those governing indebtedness, liens, fundamental changes, transactions with affiliates, and sales of assets. This agreement requires us to comply with a fixed charge coverage ratio of at least 1.10:1.00, tested quarterly on a rolling four quarter basis. At December 31, 2020 we were in compliance with this covenant. Our obligations under this agreement are subject to acceleration upon the occurrence of an event of default as defined in the loan agreement.

Note 6 – Workers' Compensation Insurance and Reserves

Beginning in March 2014, Legacy HQ obtained its workers' compensation insurance through Chubb Limited and ACE American Insurance Company (collectively, "ACE"), in all states in which it operated, other than monopolistic jurisdictions. The ACE policy was a high deductible policy pursuant to which Legacy HQ had primary responsibility for all claims with ACE providing insurance for covered losses and expenses in excess of \$500,000 per incident. In addition to the ACE policy, Legacy HQ purchased a deductible reimbursement insurance policy from HQ Ins. to cover losses up to the \$500,000 deductible with ACE. This resulted in Legacy HQ effectively being fully insured during this time period. Effective July 15, 2019, we terminated our deductible reimbursement policy with HQ Ins. and have assumed the primary responsibility for all claims up to the deductible occurring on or after July 15, 2019. The primary responsibility of all claims occurring before July 15, 2019 remains with HQ Ins. We assumed the Legacy HQ policy with ACE.

Command Center also obtained its workers' compensation insurance through ACE. Pursuant to Command Center's policy, ACE provides insurance for covered losses and expenses in excess of \$500,000 per incident. Command Center's ACE policy in effect as of the date of the Merger includes a one-time obligation for the Company to pay any single claim filed under the Command Center policy within a policy year that exceeds \$500,000 (if any), but only up to \$750,000 for that claim. All other claims within the policy year are subject to the \$500,000 deductible. Effective July 15, 2019, in connection with the Merger, we assumed all of the workers' compensation claims of Command Center. We also assumed Command Center's workers' compensation policy with ACE.

Under these high deductible programs, HQI is effectively self-insured. Per our contractual agreements with ACE, we must provide collateral deposits of approximately \$9.1 million, which we accomplished by providing letters of credit under our agreement with Trust.

For workers' compensation claims originating in the monopolistic jurisdictions of Washington, North Dakota, Ohio, and Wyoming, we pay workers' compensation insurance premiums and obtain full coverage under mandatory state administered programs. Our liability associated with claims in these jurisdictions is limited to premium payments based upon the amount of payroll paid within each jurisdiction. Accordingly, our consolidated financial statements reflect only the mandated workers' compensation insurance premium liability for workers' compensation claims in these jurisdictions.

The following table reflects the changes in our workers' compensation claims liability:

| | December 31, 2020 | December 31, 2019 |
|--|----------------------|----------------------|
| Estimated future claims liabilities at the beginning of the period | \$ 3,844,501 | \$ - |
| Claims paid during the period | (3,779,286) | (1,237,977) |
| Additional future claims liabilities recorded during the period | 4,518,853 | 5,082,478 |
| Estimated future claims liabilities at the end of the period | <u>\$ 4,584,068</u> | <u>\$ 3,844,501</u> |

Note 7 – Analysis of Franchised and Company-Owned Offices

Below is a summary of changes in the number of offices:

| | |
|---------------------------------------|------------|
| Franchised offices, December 31, 2018 | 97 |
| Closed in 2019 | (10) |
| Opened in 2019 | 60 |
| Franchised offices, December 31, 2019 | 147 |
| Closed in 2020 | (13) |
| Opened in 2020 | 5 |
| Franchised offices, December 31, 2020 | <u>139</u> |

Note 8 – Stockholders' Equity

Dividend

On September 15, 2020 we declared and paid a \$0.05 per common share dividend to shareholders of record as of the close of business on September 1, 2020 which amounted to an aggregate cash payment of approximately \$678,000. Then, on December 15, 2020 we declared and paid a \$0.05 per common share dividend to shareholders of record as of the close of business on December 1, 2020 which amounted to an aggregate cash payment of approximately \$680,000. We intend to continue to pay this dividend on a quarterly basis, based on our business results and financial position.

Treasury Stock

Effective July 2020, our Board of Directors authorized a one-year repurchase plan for up to 1 million shares of our common stock at a cost not to exceed \$100,000 per month. During the year ended December 31, 2020, we purchased 23,638 shares of our common stock at an aggregate cost of approximately \$146,000 resulting in an average price of \$6.20 per share. These shares are held in treasury. The table below summarized our common stock purchased during 2020 in more detail:

| | Total shares purchased | Average price per share | Total number of shares purchased as part of publicly announced plan | Approximate dollar value of shares that may be purchased under the plan |
|--------------|------------------------|-------------------------|---|---|
| July, 2020 | 675 | \$ 6.21 | 675 | \$ 1,200,000 |
| August, 2020 | 22,963 | 6.20 | 23,638 | 1,000,000 |
| Total | 23,638 | | | |

Additionally, there were 9,454 restricted shares that did not meet the vesting criteria. These shares are also held in treasury.

Issuance of Common Stock

In October 2019, we issued 8,750 shares of stock pursuant to the exercise of 8,750 common stock options with a strike price of \$5.50 for a total purchase price of \$48,125. In December 2019, we issued 22,917 shares of stock pursuant to the exercise of 22,917 common stock options with weighted average strike price of \$4.96 for a total purchase price of \$113,752.

Tender Offer

In June 2019, we commenced an issuer tender offer to purchase up to 1,500,000 shares of our common stock at a fixed price of \$6.00 per share. This tender offer expired on July 25, 2019, and we accepted for purchase approximately 1.4 million shares for an aggregate cost of approximately \$8.4 million, excluding fees and expenses.

Note 9 – Stock Based Compensation

Employee Stock Incentive Plan

Our 2008 Stock Incentive Plan (the "2008 Plan"), which permitted the grant of up to 533,333 equity awards, expired in January 2016. In November 2016, our stockholders approved a new stock incentive plan, the 2016 Plan, under which were authorized to grant awards for up to 500,000 shares of our common stock over the 10 year life of the plan.

In 2019, we issued 160,000 shares of restricted common stock to certain key employees pursuant to the 2016 Plan valued at approximately \$1.1 million for services and to encourage retention. These shares vest over four years, with 50% vesting on September 1, 2021, and 6.25% vesting each quarter thereafter for the next eight quarters. Also in 2019, we issued 90,000 shares of restricted common stock pursuant to the 2016 Plan valued at \$648,000 for services to non-employee members of our Board of Directors. One third of these shares vested on June 14, 2020, and the remainder will vest in equal proportions on the first two anniversaries of that date. Also in 2019, we issued 9,833 shares of restricted common stock pursuant to the 2016 Plan valued at approximately \$59,000 to certain members of our Board of Directors for their services in lieu of cash compensation. Of these, 8,194 shares vested equally over the following three months. The remaining 1,639 shares were issued pursuant to our share purchase match program (described below). Also in 2019, we issued 4,202 shares of restricted common stock pursuant to the 2016 Plan valued at \$25,000 to an employee in lieu of cash for a bonus, which vested equally over the following three months.

In September 2019, our Board approved a share purchase match program to encourage ownership and further align the interests of key employees and directors with those of our shareholders. Under this program, we will match 20% of any shares of our common stock purchased on the open market or granted in lieu of cash compensation by key employees and directors up to \$25,000 in aggregate value per individual within any calendar year. These shares vest on the second anniversary of the date on which the matched shares were purchased if the individual is still with the Company. During 2020, we issued approximately 22,000 shares valued at approximately \$147,000 under this program. During 2019, we issued approximately 2,000 shares valued at approximately \$10,000 under this program.

In December 2019, our Board approved the 2019 HireQuest, Inc. Equity Incentive Plan (the "2019 Plan"), intended to replace the 2016 Plan with respect to future grants. Subject to adjustment in accordance with the terms of the 2019 Plan, no more than 1,500,000 shares of common stock are available in the aggregate for the grant of awards under the 2019 Plan. No more than 1,000,000 shares may be issued in the aggregate pursuant to the exercise of incentive stock options. In addition, no more than 250,000 shares may be issued in the aggregate to any employee or consultant, and no more than 50,000 shares may be issued in the aggregate to any non-employee director in any twelve-month period. Shares of common stock available for distribution under the Plan may consist, in whole or in part, of authorized and unissued shares, treasury shares or shares reacquired by the Company in any manner. The 2019 Plan was approved by our shareholders in June 2020 and became effective as of that date. Pursuant to the terms of the 2019 Plan, any award already granted under the 2016 Plan as of June 15, 2020 remained in full force and effect, as if the 2016 Plan had not been amended or terminated.

In 2020, we issued 83,283 shares of restricted common stock pursuant to the 2019 Plan valued at approximately \$547,000 to members of our Board of Directors for their services in lieu of cash compensation. Of these, 61,868 shares vested equally over the following three months. The remaining 21,415 shares were issued pursuant to our share purchase match program.

Also in 2020, we issued 25,000 shares of restricted common stock to an employee pursuant to the 2019 Plan valued at approximately \$179,000 for services, and to encourage retention. These shares vest over four years, with 50% vesting on September 11, 2021, and 6.25% vesting each quarter thereafter for the next eight quarters. Also in 2020, we issued 402 shares of restricted common stock to certain employees pursuant to our share purchase match program valued at approximately \$3,000.

The following table summarizes our restricted stock outstanding at December 31, 2018, and changes during the years ended December 31, 2019 and December 31, 2020.

| | Shares | Weighted average grant date price |
|-------------------------------|-----------------|-----------------------------------|
| Non-vested, December 31, 2018 | - | - |
| Granted | 264,035 | 7.15 |
| Vested | <u>(8,264)</u> | <u>6.19</u> |
| Non-vested, December 31, 2019 | 255,771 | 7.18 |
| Granted | 110,639 | 6.71 |
| Forfeited | (9,454) | 7.14 |
| Vested | <u>(73,500)</u> | <u>6.56</u> |
| Non-vested, December 31, 2020 | <u>283,456</u> | <u>7.19</u> |

Stock options that were outstanding at Command Center were deemed to be issued on the date of the Merger. Outstanding awards continue to remain in effect according to the terms of the 2008 Plan, the 2016 Plan, and the corresponding award documents. There were approximately 15,000 and 24,000 stock options vested at December 31, 2020 and December 31, 2019, respectively.

The estimated fair value of each option granted is calculated using the Black-Scholes option-pricing model. Expected volatilities are based on the Company's historical data and implied volatility. The Company uses historical data to estimate expected employee forfeitures of stock options. The expected life of options granted is management's best estimate using recent and expected transactions. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. There were no options granted in 2020. The weighted-average assumptions used in the model were as follows:

| | 2019 |
|--|---------------|
| Expected term (years) | 2.3 - 8.9 |
| Expected volatility | 46.8% - 63.1% |
| Dividend yield | 0.0% |
| Risk-free rate | 1.7% - 2.4% |
| Weighted average grant date fair value | \$ 3.18 |

The following table summarizes our stock options outstanding at December 31, 2018, and changes during the years ended December 31, 2020 and December 31, 2019.

| | Number of shares underlying options | Weighted average exercise price per share | Weighted average grant date fair value |
|--------------------------------|--|--|---|
| Outstanding, December 31, 2018 | - | \$ - | \$ - |
| Granted | 160,831 | 5.86 | 3.18 |
| Forfeited | (100,000) | 5.70 | 3.16 |
| Exercised | (31,666) | 5.11 | 2.71 |
| Outstanding, December 31, 2019 | 29,165 | 7.20 | 3.76 |
| Forfeited | (12,083) | 8.76 | 4.34 |
| Outstanding, December 31, 2020 | 17,082 | 6.10 | 3.36 |

The following table summarizes our non-vested stock options outstanding at December 31, 2018, and changes during the years December 31, 2020 and December 31, 2019:

| | Number of shares underlying options | Weighted average exercise price per share | Weighted average grant date fair value |
|-------------------------------|--|--|---|
| Non-vested, December 31, 2018 | - | \$ - | \$ - |
| Granted | 84,523 | 5.56 | 3.05 |
| Forfeited | (57,857) | 5.70 | 3.16 |
| Vested | (21,250) | 5.21 | 2.73 |
| Non-vested, December 31, 2019 | 5,417 | 5.48 | 3.01 |
| Vested | (3,229) | 5.47 | 2.98 |
| Non-vested, December 31, 2020 | 2,188 | 5.50 | 3.05 |

The following table summarizes information about our outstanding stock options, and reflects the intrinsic value recalculated based on the closing price of our common stock of \$10.22 on December 31, 2020:

| | Number of shares underlying options | Weighted average exercise price per share | Weighted average remaining contractual life (years) | Aggregate intrinsic value |
|-------------|--|--|---|---------------------------|
| Outstanding | 17,082 | \$ 6.10 | 5.67 | \$ 82,496 |
| Exercisable | 14,894 | 6.18 | 5.41 | 60,135 |

At December 31, 2020, there was unrecognized stock-based compensation expense totaling approximately \$845,000 relating to non-vested options and restricted stock grants that will be recognized over the next 2.7 years.

Note 10 – Property and Equipment

The following table summarizes the book value of our assets and accumulated depreciation.

| | December 31, 2020 | December 31, 2019 |
|-----------------------------------|----------------------|----------------------|
| Land | \$ 472,492 | \$ 472,492 |
| Buildings and improvements | 1,027,631 | 1,023,231 |
| Furniture and fixtures | 599,901 | 598,417 |
| Construction in progress | 1,648,640 | 270,828 |
| Accumulated depreciation | (555,285) | (464,282) |
| Total property and equipment, net | \$ 3,193,379 | \$ 1,900,686 |

Construction in progress consists primarily of capitalized costs related to an addition to our corporate headquarters.

Depreciation expense related to property and equipment totaled approximately \$129,000 and \$400,000 during the years ended December 31, 2020 and December 31, 2019, respectively.

Note 11 – Intangible Assets

The following table reflects our finite-lived intangible assets.

| | December 31, 2020 | | |
|--------------------------------------|-------------------|--------------------------|------------|
| | Gross | Accumulated amortization | Net |
| Finite-lived intangible assets: | | | |
| Internal-use software development | \$ 342,697 | - | \$ 342,697 |
| Total finite-lived intangible assets | \$ 342,697 | \$ - | \$ 342,697 |

We did not recognize any amortization expense related to intangible assets during the year ended December 31, 2020 as we are still in the development stage.

Note 12 – Commitments and Contingencies

Consulting Agreement

As contemplated by the Merger Agreement, on July 15, 2019, we entered into a consulting arrangement with Dock Square. Pursuant to this consulting arrangement, Dock Square introduces prospective customers and expands relationships with our existing customers for which in return it is eligible to receive unregistered shares of our common stock, subject to certain performance metrics and vesting terms. The grant of any such shares by us would be based on our gross revenue generated from the services of Dock Square as measured over a 12 month period. Upon the grant of any such shares, 50% of such granted shares would vest immediately, and the remaining 50% of such granted shares would be subject to a vesting requirement linked to the gross revenue generated from the services of Dock Square measured over a 3 year period. We refer to any such shares as the "Performance Shares." We anticipate the maximum aggregate number of Performance Shares issuable under the consulting arrangement would not exceed 1.6 million shares. Any Performance Shares would be in addition to the pro rata portion of the shares of our common stock that Dock Square's members received as merger consideration at the closing of the Merger, along with the other investors in Legacy HQ. Dock Square would receive any declared and paid dividends on issued Performance Shares, including the unvested portion of such shares during the 3-year vesting measurement period, and the issued but unvested Performance Shares would vest upon a change of control. In addition, Dock Square received piggy-back registration rights with respect to its Performance Shares issued and vested at the time of such registration. To date, no shares have been issued to Dock Square as performance targets have not been met.

Franchise Acquisition Indebtedness

We financed the purchase of several offices by new franchises with notes receivable. In some instances, this financing resulted in certain franchises being considered VIE's. We have determined that we are not required to consolidate these entities because we do not have the power to direct these entities' daily operations. If these franchises default on these notes, we bear the risk of loss of the outstanding balance on these notes, less what we could recoup from the potential resale of the repossessed office. The balance due from the franchises determined to be VIE's on December 31, 2020 and December 31, 2019 was approximately \$2.1 million and \$2.5 million, respectively.

Legal Proceedings

From time to time, we are involved in various legal and administrative proceedings. Based on information currently available to us, we do not expect material uninsured losses to arise from any of these matters. We believe the outcome of these matters, even if determined adversely, will not have a material adverse effect on our business, financial condition or results of operations. There have been no material changes in our legal proceedings as of December 31, 2020.

Note 13 – Income Tax

The provision for income taxes is comprised of the following:

| | December 31, 2020 | December 31, 2019 |
|-------------------------------|----------------------|----------------------|
| Current | | |
| Federal | \$ 1,812,710 | \$ 3,551,418 |
| State | 696,154 | 996,510 |
| Deferred | | |
| Federal | (1,246,828) | (1,113,042) |
| State | (520,999) | 46,110 |
| Change in valuation allowance | - | - |
| Provision for income taxes | <u>\$ 741,038</u> | <u>\$ 3,480,996</u> |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred taxes are as follows:

| | December 31, 2020 | December 31, 2019 |
|--|----------------------|-----------------------|
| Deferred Tax Assets and Liabilities | | |
| Workers' compensation claims liability | \$ 1,131,695 | \$ 947,023 |
| Depreciation/amortization | 205,987 | 279,990 |
| Bad debt reserve | 18,984 | 41,436 |
| Accrued vacation | 33,956 | 37,771 |
| Cash to Accrual - 481 Adjustment | (1,888,302) | (3,000,216) |
| Impairment of notes receivable | 394,674 | - |
| Stock based compensation | 182,385 | 5,550 |
| Total deferred tax asset | <u>\$ 79,379</u> | <u>\$ (1,688,446)</u> |

Management estimates that our effective tax rates was approximately 12.1% for 2020. The items accounting for the difference between income taxes computed at the statutory federal income tax rate and the income taxes reported on the statements of income are as follows:

| | December 31, 2020 | | December 31, 2019 | |
|---|-------------------|--------------|---------------------|---------------|
| Income tax expense based on statutory rate | \$ 1,281,095 | 21.0% | \$ 624,860 | 21.0% |
| Permanent differences | 4,233 | 0.1% | (789,810) | (26.5)% |
| State income taxes expense net of federal taxes | 138,375 | 2.3% | 820,698 | 27.6% |
| WOTC | (712,891) | (11.7)% | (498,000) | (16.7)% |
| HQ Conversion to C Corp | - | 0.0% | 3,320,594 | 111.6% |
| Other | 30,226 | 0.5% | 2,654 | 0.1% |
| Total taxes on income | <u>\$ 741,038</u> | <u>12.1%</u> | <u>\$ 3,480,996</u> | <u>117.0%</u> |

Note 14 – Notes Receivable

Some franchisees, as well as the purchaser of our previously owned California locations, have borrowed funds from us primarily to finance the initial purchase price of office assets. Notes outstanding net of allowance for losses were approximately \$8.1 million and \$11.4 million as of December 31, 2020 and December 31, 2019, respectively.

Notes receivable bear interest at a fixed rate between 6.0% and 10.0%. Notes are generally secured by the assets of each location and the ownership interests in the franchisee. Interest income on franchisee notes is reported in other miscellaneous income in our consolidated statements of operations and was approximately \$712,000 and \$280,000 in the years ended December 31, 2020 and December 31, 2019, respectively.

We estimate the allowance for losses for franchisees separately from the allowance for losses from non-franchisees because of the level of detailed sales information available to us with respect to the former.

Based on our review of the financial condition of the borrowers, the underlying collateral value, and the potential future impact of COVID-19 on certain borrowers' economic performance and estimated future cash flows, we have established an allowance of approximately \$1.6 million as of December 31, 2020 for potentially uncollectible notes receivable.

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

| | December 31, 2020 | December 31, 2019 |
|-----------------------|---------------------|---------------------|
| Note receivable | \$ 8,023,807 | \$ 9,702,471 |
| Allowance for losses | (405,313) | - |
| Notes receivable, net | <u>\$ 7,618,494</u> | <u>\$ 9,702,471</u> |

During 2020, one of our note holders experienced significant economic hardships due to the impacts of COVID-19. As a result, we restructured one note receivable in an effort to increase the probability of repayment. We granted near-term payment concessions to help the debtor attempt to improve its financial condition so it may eventually be able to repay the amount due. We received recognized interest income of approximately \$174,000 and \$46,000 during the years ended December 31, 2020 and December 31, 2019, respectively.

The following table summarizes changes in our notes receivable balance that have been deemed impaired:

| | December 31, 2020 | December 31, 2019 |
|-----------------------|-------------------|---------------------|
| Note receivable | \$ 1,640,393 | \$ 1,707,238 |
| Allowance for losses | (1,193,359) | - |
| Notes receivable, net | <u>\$ 447,034</u> | <u>\$ 1,707,238</u> |

Note 15 – Unaudited Quarterly Results of Operations

The following table displays our unaudited consolidated statement of operations for the fourth quarter ended December 31, 2020 and December 31, 2019:

| | Three months ended | |
|---|----------------------|----------------------|
| | December 31, 2020 | December 31, 2019 |
| Franchise royalties | \$ 3,229,658 | \$ 5,396,922 |
| Service revenue | 175,817 | 475,748 |
| Total revenue | 3,405,475 | 5,872,670 |
| Selling, general and administrative expenses | 2,158,276 | 3,131,312 |
| Depreciation and amortization | 32,528 | 324,502 |
| Income (loss) from operations | 1,214,671 | 2,416,856 |
| Other miscellaneous income | 238,365 | (616) |
| Interest and other financing expense | (10,490) | (37,748) |
| Net income before income taxes | 1,442,546 | 2,378,492 |
| Provision (benefit) for income taxes | 86,446 | (1,399,406) |
| Income (loss) from continuing operations | 1,356,100 | 3,777,898 |
| Income from discontinued operations, net of tax | - | (315,067) |
| Net income (loss) | \$ 1,356,100 | \$ 3,462,831 |
| Basic earnings per share | | |
| Continuing operations | \$ 0.10 | \$ 0.28 |
| Discontinued operations | - | (0.02) |
| Total | \$ 0.10 | \$ 0.26 |
| Diluted earnings per share | | |
| Continuing operations | \$ 0.10 | \$ 0.28 |
| Discontinued operations | - | (0.02) |
| Total | \$ 0.10 | \$ 0.26 |

Note 16 - Subsequent Events

Link Staffing Acquisition

On March 22, 2021, we completed our acquisition of the franchise relationships and certain other assets of Link Staffing in accordance with the terms of the Asset Purchase Agreement dated February 12, 2021 (the "Link Agreement"). Link Staffing is a family-owned staffing company headquartered in Houston, TX. Pursuant to the Link Agreement, HQ Link Corporation ("HQ Link"), our wholly-owned subsidiary, acquired approximately 35 franchised offices, customer lists and contracts, and other assets of Link Staffing for a purchase price of \$11.1 million (the "Link Acquisition"). We funded this acquisition with existing cash on hand. We did not receive working capital and expect to satisfy future working capital needs related to the Link Acquisition with existing cash on hand and a line of credit with Truist. The initial acquisition accounting of Link has not been completed as the transaction was only recently completed.

Snelling Staffing Acquisition

On March 1, 2021, we completed our acquisition of certain assets of Snelling Staffing in accordance with the terms of the Asset Purchase Agreement dated January 29, 2021 (the "Snelling Agreement"). Snelling Staffing is a 67-year-old staffing company headquartered in Richardson, TX. Pursuant to the Snelling Agreement, HQ Snelling Corporation ("HQ Snelling"), our wholly-owned subsidiary, acquired substantially all of the operating assets and assumed certain liabilities of the sellers for a purchase price of \$17.3 million, subject to customary adjustments for net working capital plus further adjustment in an amount equal to the collateral released to the sellers by their workers' compensation insurer which Hire Quest, LLC will replace with the insurer. Also on March 1, 2021, HQ Snelling entered into the First Amendment to the Purchase Agreement, pursuant to which HireQuest, Inc. agreed to advance \$2.1 million to be paid to the sellers at closing to be used to pay accrued payroll liabilities that HQ Snelling assumed pursuant to the Snelling Agreement. The initial acquisition accounting of Snelling has not been completed as the transaction was only relatively recently completed.

We funded this acquisition with existing cash on hand and a draw on our existing line of credit with Truist.

Note Purchase Agreement

On March 1, 2021, HQ Financial Corporation ("HQ Financial"), a wholly-owned subsidiary of HireQuest, Inc., entered into a definitive note purchase agreement (the "Note Purchase Agreement") with Bass Underwriters, Inc. ("Bass"), whereby HQ Financial sold and conveyed existing notes receivable due from franchisees to Bass for their current principal value of approximately \$5.3 million. Bass is a related party to HireQuest, Inc., owned in part by Richard Hermanns, Edward Jackson, and trusts they have established. The transaction was reviewed and approved unanimously by all of the disinterested members of the board of directors of HireQuest, Inc. The Note Purchase Agreement provides that Bass will have no recourse against HQ Financial in the event of a default under any of the notes subject to the agreement.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of HireQuest, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of HireQuest, Inc. (the “Company”) as of December 31, 2021 and 2020, the related statements of operations, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2021; and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (the “PCAOB”) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

Critical Audit Matters

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

Workers' Compensation Claims Liability — Refer to Notes 1 and 5 to the financial statements

Critical Audit Matter Description

The Company's workers' compensation claims liability is based on estimated future costs to be incurred by the Company. The liability includes claims that have been reported but not settled, as well as claims that have been incurred but not reported. Annually, the Company utilizes third party actuarial estimates of future costs of the claims discounted by a present value interest rate to estimate the amount of the reserves. If the actual costs of the claims exceed the amount estimated, additional reserves may be required. The workers' compensation claims liability balance as of December 31, 2021 was \$8,249,152.

We identified the workers' compensation claims liability as a critical accounting matter because of the significance of the assumptions used in the actuarial estimates of the liability for workers' compensation claims and consideration of the completeness of information provided to the third-party actuarial firm. As a result, performing audit procedures to evaluate the reasonableness of estimates and assumptions related to the adequacy of the workers' compensation liability required a high degree of auditor judgement and an increased extent of effort.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the evaluation of the reasonableness of the workers' compensation claim liability included the following, among others:

- We obtained an understanding of the process and evaluated the design and implementation of controls relating to management's determination of the workers' compensation claim liability.
- We assessed the professional qualifications of the third-party actuary including their independence, experience, and certifications.
- We obtained and reviewed the independent actuarial report and gained an understanding from the actuary of the objectives and scope of their work, and we evaluated the consistency of methods and assumptions used in the current year as compared to previous years.
- We discussed the valuation model, data inputs, assumptions, calculations, and results directly with the third-party actuary.
- We analytically considered balances in relation to prior years and activity that took place during the year.
- We tested the completeness, integrity, and accuracy of the underlying data used by the third-party actuary as part of the actuarial valuation, including confirmation with third party data providers.

Acquisitions — Refer to Note 2 to the financial statements

Critical Audit Matter Description

The Company completed the acquisition of Snelling Staffing for total consideration of \$17.9 million on March 1, 2021. The Company accounted for this transaction under the acquisition method of accounting for business combinations. Accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their respective fair values, including identified intangible assets of \$12.7 million and resulting bargain purchase gain of \$5.6 million. Of the identified intangible assets acquired, the most significant is the franchise agreements. The Company estimated the fair value of the franchise agreements using the multi-period excess earnings method (income approach), which is a specific application of the discounted-cash-flow-method that required management to make significant estimates and assumptions related to forecasts of revenue growth projections, including growth rates over the estimated life of the franchise agreements, and selection of royalty rates, discount rates, and methodologies utilized in the valuation model.

We identified the valuation of the franchise agreements as a critical audit matter because of the significant estimates and assumptions management made to fair value this asset for purposes of recording the acquisition. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures, including the need to involve fair value specialists, evaluation of the reasonableness of management's forecasts of future revenue, as well as the selection of the royalty rates, discount rates and methodologies utilized in the valuation models.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to testing the valuation of franchise agreements included the following, among others:

- We tested the Company's process over the valuation of the franchise agreements, including management's forecasts of revenue growth projections, the selection of the royalty rates, discount rates, and attrition rates as well as the methodologies utilized in the valuation models.
- We evaluated the reasonableness of management's forecast of revenue growth projections by comparing the projections to historical results.
- With the assistance of fair value specialists, we evaluated the reasonableness of the revenue growth projections, royalty rates, discount rates, attrition rates and valuation methodologies by:
 - Testing the source information underlying the determination of revenue growth projections, specifically the long-term growth rate, royalty rates, and discount rates, and testing the mathematical accuracy of the calculations.
 - Reviewed the reconciliation of the internal rate of return, the weighted average return on assets and the weighted average cost of capital noting that the reconciliation fell within an acceptable range.
 - Reviewed the sensitivity analysis related to the discount rate and growth rate used for estimating the fair value.

/s/ Plante & Moran, PLLC

We have served as the Company's auditor since 2017.
Boulder, Colorado
March 15, 2022

HireQuest, Inc.
Consolidated Balance Sheets

| | December 31, 2021 | December 31, 2020 |
|---|----------------------|----------------------|
| 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.

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.

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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.

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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.

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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.

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Command Center also obtained its workers' compensation insurance through ACE. Pursuant to Command Center's policy, ACE provides insurance for covered losses and expenses in excess of \$500,000 per incident. Command Center's ACE policy in effect as of the date of the Merger includes a one-time obligation for the Company to pay any single claim filed under the Command Center policy within a policy year that exceeds \$500,000 (if any), but only up to \$750,000 for that claim. All other claims within the policy year are subject to the \$500,000 deductible. Effective July 15, 2019, in connection with the Merger, we assumed all of the workers' compensation claims of Command Center. We also assumed Command Center's workers' compensation policy with ACE.

Under these high deductible programs, HQI is effectively self-insured. Per our contractual agreements with ACE, we must provide collateral deposits of approximately \$14.3 million, which we accomplished by providing letters of credit under our agreement with Truist.

For workers' compensation claims originating in the monopolistic jurisdictions of Washington, North Dakota, Ohio, and Wyoming, we pay workers' compensation insurance premiums and obtain full coverage under mandatory state administered programs. Our liability associated with claims in these jurisdictions is limited to premium payments based upon the amount of payroll paid within each jurisdiction. Accordingly, our consolidated financial statements reflect only the mandated workers' compensation insurance premium liability for workers' compensation claims in these jurisdictions.

The following table reflects the changes in our workers' compensation claims liability:

| | December 31, 2021 | December 31, 2020 |
|--|----------------------|----------------------|
| Estimated future claims liabilities at the beginning of the period | \$ 4,584,068 | \$ 3,844,501 |
| Claims paid during the period | (5,026,668) | (3,779,286) |
| Additional future claims liabilities recorded during the period | 8,691,752 | 4,518,853 |
| Estimated future claims liabilities at the end of the period | <u>\$ 8,249,152</u> | <u>\$ 4,584,068</u> |

Note 6 – Analysis of Franchised and Company-Owned Offices

Below is a summary of changes in the number of franchised offices:

| | |
|---|------------|
| Franchised offices, December 31, 2019 | 147 |
| Opened in 2020 | 5 |
| Closed in 2020 | (13) |
| Franchised offices, December 31, 2020 | 139 |
| Purchased in 2021 (net of sold locations) | 65 |
| Opened in 2021 | 14 |
| Closed in 2021 | (1) |
| Franchised offices, December 31, 2021 | <u>217</u> |

At December 31, HQI had one company-owned office, which is the staffing division acquired in the Dental Power acquisition.

Note 7 – Stockholders’ Equity**Dividend**

In the third quarter of 2020, we initiated the payment of a quarterly dividend. We intend to continue to pay a quarterly dividend, based on our business results and financial position. The following common share dividends were paid during 2021 and 2020:

| Declaration date | Dividend | Total paid |
|-------------------|----------|------------|
| September 1, 2020 | \$ 0.05 | \$ 677,869 |
| December 1, 2020 | 0.05 | 679,779 |
| March 1, 2021 | 0.05 | 680,247 |
| June 1, 2021 | 0.06 | 816,604 |
| September 1, 2021 | 0.06 | 821,628 |
| December 1, 2021 | 0.06 | 822,120 |

Treasury Stock

Effective July 2020, our Board of Directors authorized a one-year repurchase plan for up to 1 million shares of our common stock. During the year ended December 31, 2020, we purchased 23,638 shares of our common stock at an aggregate cost of approximately \$146,000 resulting in an average price of \$6.20 per share. These shares are held in treasury. We have not purchased any shares of our common stock during 2021.

The table below summarized our common stock purchased during 2020 in more detail:

| | Total shares purchased | Average price per share | Total number of shares purchased as part of publicly announced plan | Approximate dollar value of shares that may be purchased under the plan |
|--------------|------------------------|-------------------------|---|---|
| July, 2020 | 675 | \$ 6.21 | 675 | \$ 1,200,000 |
| August, 2020 | 22,963 | 6.20 | 23,638 | 1,000,000 |
| Total | 23,638 | | | |

Additionally, there were 16,785 restricted shares that did not meet the vesting criteria. These shares are also held in treasury.

Issuance of Common Stock

In October 2021, we issued 4,166 shares of stock pursuant to the exercise of common stock options with a strike price of \$8.04 for a total purchase price of \$33,495.

Note 8 – Stock Based Compensation**Employee Stock Incentive Plan**

In September 2019, our Board approved a share purchase match program to encourage ownership and further align the interests of key employees and directors with those of our shareholders. Under this program, we will match 20% of any shares of our common stock purchased on the open market by or granted in lieu of cash compensation to key employees and directors up to \$25,000 in aggregate value per individual within any calendar year. These shares vest on the second anniversary of the date on which the matched shares were purchased if the individual is still employed by the Company and certain other vesting criteria are met. During 2021, we issued 5,075 shares valued at approximately \$77,000 under this program. During 2020, we issued approximately 20,000 shares valued at approximately \$118,000 under this program.

In December 2019, our Board approved the 2019 HireQuest, Inc. Equity Incentive Plan (the “2019 Plan”). Subject to adjustment in accordance with the terms of the 2019 Plan, no more than 1,500,000 shares of common stock are available in the aggregate for the grant of awards under the 2019 Plan. No more than 1,000,000 shares may be issued in the aggregate pursuant to the exercise of incentive stock options. In addition, no more than 250,000 shares may be issued in the aggregate to any employee or consultant, and no more than 50,000 shares may be issued in the aggregate to any non-employee director in any twelve-month period. Shares of common stock available for distribution under the Plan may consist, in whole or in part, of authorized and unissued shares, treasury shares or shares reacquired by the Company in any manner. The 2019 Plan was approved by our shareholders in June 2020 and became effective as of that date.

In 2021, we issued 51,155 shares of restricted common stock pursuant to the 2019 Plan valued at approximately \$1.0 million to members of our Board of Directors for their services in lieu of cash compensation. Of these, 46,191 shares vested equally over the following three months. The remaining 4,964 shares were issued pursuant to our share purchase match program.

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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 |

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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 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, 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> |

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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.

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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.

**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 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.

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.

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.

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 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 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: [DATE]

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 [DATE] that included the following Exhibits: EXHIBIT

- A: Management Recruiters Franchise Agreement and Exhibits

- EXHIBIT C: Operations Materials Table of Contents
- EXHIBIT D1: MRI Outlets as of December 31, 2022
- EXHIBIT D2: Former MRI Outlets for the period January 1, 2022 through December 31, 2022
- EXHIBIT E: MRINetwork Code of Conduct
- EXHIBIT G: Sample Release Language
- EXHIBIT H: Financial Statements
- EXHIBIT I: Agents for Service of Process
- EXHIBIT J: State Addenda
- EXHIBIT K: State Effective Dates
- EXHIBIT L: 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