REFINITIV

DELTA REPORT

10-Q

HIREQUEST, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1375
CHANGES	227
DELETIONS	774
ADDITIONS	374

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended **September 30, 2023** **March 31, 2024**

or

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

Commission File Number **001-38513**

image01.jpg

HireQuest, Inc.

(Exact name of registrant as specified in its Charter)

Delaware	91-2079472
(State of incorporation or organization)	(I.R.S. employer identification no.)

111 Springhall Drive, Goose Creek, SC 29445

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(843) 723-7400**

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

Common Stock, $0.001 par value	HQI	The NASDAQ Stock Market LLC
Title of each class	Trading Symbol(s)	Name of each exchange on which registered

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer ☐, an accelerated filer ☐, a non-accelerated filer ☒, a smaller reporting company ☒, or an emerging growth company ☐ (as defined in Rule 12b-2 of the Exchange Act).

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Number of shares of issuer's common stock outstanding atNovember 7, 2023: 13.9 million May 8, 2024: 14.0 million

HireQuest, Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HireQuest, Inc.

Consolidated Balance Sheets

(unaudited)

(in thousands, except par value data)	**September 30, 2023**	**December 31, 2022**	**March 31, 2024**	**December 31, 2023**
ASSETS				
Current assets				
Cash	$ 1,110	$ 3,049	$ 1,569	$ 1,342
Accounts receivable, net of allowance for doubtful accounts	50,171	45,728	47,712	44,394
Notes receivable	926	817	1,897	1,788
Prepaid expenses, deposits, and other assets	3,278	1,833	2,693	3,283
Prepaid workers' compensation	666	503	1,194	646
Total current assets	56,151	51,930	55,065	51,453
Property and equipment, net	4,321	4,353	4,239	4,280
Workers' compensation claim payment deposit	1,469	1,231	1,128	1,469
Deferred tax asset			284	325
Franchise agreements, net	21,866	23,144	21,014	21,440
Other intangible assets, net	10,292	10,690	10,031	10,162

Goodwill	5,870	5,870	5,870	5,870
Other assets	122	325	82	102
Notes receivable, net of current portion and reserve	3,742	2,675		
Notes receivable, net of current portion and allowance of $623 thousand			7,341	7,834
Intangible asset held for sale - discontinued operations	1,405	3,065	891	891
Total assets	$ 105,238	$ 103,283	$ 105,945	$ 103,826
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable	$ 210	$ 448	$ 90	$ 137
Line of credit	14,409	12,543	16,107	14,119
Term loans payable	510	704	476	514
Other current liabilities	2,622	3,408	1,220	2,338
Accrued payroll, benefits, and payroll taxes	4,594	5,602	4,592	4,286
Due to franchisees	10,990	9,846	10,123	9,881
Risk management incentive program liability	521	877	704	565
Workers' compensation claims liability	3,222	3,352	3,773	3,871
Total current liabilities	37,078	36,780	37,085	35,711
Term loan payable, net of current portion	219	3,291	-	132
Deferred tax liability	43	60		
Workers' compensation claims liability, net of current portion	2,419	2,573	2,571	2,766
Franchisee deposits	2,481	2,325	2,414	2,485
Total liabilities	42,240	45,029	42,070	41,094
Commitments and contingencies (Note 8)				
Stockholders' equity				
Preferred stock - $0.001 par value, 1,000 shares authorized; none issued	-	-	-	-
Common stock - $0.001 par value, 30,000 shares authorized; 13,982 and 13,918 shares issued, respectively	14	14		
Common stock - $0.001 par value, 30,000 shares authorized; 14,002 and 13,997 shares issued, respectively			14	14
Additional paid-in capital	33,972	32,844	34,889	34,527
Treasury stock, at cost - 40 shares	(146)	(146)	(146)	(146)
Retained earnings	29,158	25,542	29,118	28,337
Total stockholders' equity	62,998	58,254	63,875	62,732
Total liabilities and stockholders' equity	$ 105,238	$ 103,283	$ 105,945	$ 103,826

See accompanying notes to consolidated financial statements.

HireQuest, Inc.

Consolidated Statements of Income

(unaudited)

(in thousands, except per share data)	Three months ended		Nine months ended		Three months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022	March 31, 2024	March 31, 2023
Franchise royalties	$ 8,894	$ 7,420	$ 26,920	$ 21,217	$ 7,831	$ 9,323
Service revenue	377	429	1,198	1,677	588	534
Total revenue	9,271	7,849	28,118	22,894	8,419	9,857
Selling, general and administrative expenses	6,354	2,111	17,824	7,989	5,619	5,844
Depreciation and amortization	699	497	2,096	1,518	698	697
Income from operations	2,218	5,241	8,198	13,387	2,102	3,316

Other miscellaneous income (expense)	117	(99)	259	(2,021)		
Other miscellaneous income					37	43
Interest income	83	51	197	198	136	46
Interest and other financing expense	(302)	(99)	(1,155)	(256)	(243)	(540)
Net income before income taxes	2,116	5,094	7,499	11,308	2,032	2,865
Provision for income taxes	518	946	1,530	1,871	340	547
Net income from continuing operations	1,598	4,148	5,969	9,437	1,692	2,318
Income (loss) from discontinued operations, net of tax	(115)	98	151	304		
(Loss) income from discontinued operations, net of tax					(73)	312
Net income	$ 1,483	$ 4,246	$ 6,120	$ 9,741	$ 1,619	$ 2,630
Basic earnings (loss) per share						
Continuing operations	$ 0.12	$ 0.30	$ 0.44	$ 0.70	$ 0.12	$ 0.17
Discontinued operations	(0.01)	0.01	0.01	0.02	-	0.02
Total	$ 0.11	$ 0.31	$ 0.45	$ 0.72	$ 0.12	$ 0.19
Diluted earnings (loss) per share						
Continuing operations	$ 0.12	$ 0.30	$ 0.44	$ 0.69	$ 0.12	$ 0.17
Discontinued operations	(0.01)	0.01	0.01	0.02	-	0.02
Total	$ 0.11	$ 0.31	$ 0.45	$ 0.71	$ 0.12	$ 0.19
Weighted average shares outstanding						
Basic	13,751	13,610	13,709	13,598	13,800	13,707
Diluted	13,820	13,677	13,777	13,688	13,886	13,782

See accompanying notes to consolidated financial statements.

HireQuest, Inc.

Consolidated Statements of Changes in Stockholders' Equity

(unaudited)

	Common stock		Treasury stock	Additional	Retained	Total stockholders'	Common stock					
Nine months ended (in thousands except per share data)	Shares	Par value	Amount	paid-in capital	earnings	equity						
Balance at December 31, 2022	13,918	$ 14	$ (146)	$ 32,844	$ 25,542	$ 58,254						
Three months ended (in thousands except per share data)							Shares	Par value	Treasury Stock amount	Additional paid-in capital	Retained earnings	Total stockholders' equity
Balance at December 31, 2023							13,997	$ 14	$ (146)	$ 34,527	$ 28,337	$ 62,732
Stock based compensation	-	-	-	1,128	-	1,128	-	-	-	362	-	362
Common stock dividends ($0.18 per share)	-	-	-	-	(2,504)	(2,504)						
Restricted common stock granted	64	-	-	-	-	-						

Net income	-	-	-	-	6,120	6,120						
Balance at September 30, 2023	13,982	$ 14	$ (146)	$ 33,972	$ 29,158	$ 62,998						
Balance at December 31, 2021	13,745	$ 14	$ (146)	$ 30,472	$ 16,395	$ 46,735						
Stock based compensation	-	-	-	1,893	-	1,893						
Common stock dividends ($0.18 per share)	-	-	-	-	(2,479)	(2,479)						
Restricted common stock granted	160	-	-	-	-	-						
Net income	-	-	-	-	9,741	9,741						
Balance at September 30, 2022	13,905	$ 14	$ (146)	$ 32,365	$ 23,657	$ 55,890						
Three months ended												
Balance at June 30, 2023	13,939	$ 14	$ (146)	$ 33,666	$ 28,512	$ 62,046						
Stock-based compensation	-	-	-	306	-	306						
Common stock dividends ($0.06 per share)	-	-	-	-	(837)	(837)	-	-	-	-	(838)	(838)
Restricted common stock granted	43	-	-	-	-	-	5	-	-	-	-	-
Net income	-	-	-	-	1,483	1,483	-	-	-	-	1,619	1,619
Balance at September 30, 2023	13,982	$ 14	$ (146)	$ 33,972	$ 29,158	$ 62,998						
Balance at March 31, 2024							14,002	$ 14	$ (146)	$ 34,889	$ 29,118	$ 63,875
Balance at June 30, 2022	13,827	$ 14	$ (146)	$ 31,781	$ 20,239	$ 51,888						
Stock-based compensation	-	-	-	584	-	584						
Common stock dividends ($0.06 per share)	-	-	-	-	(828)	(828)						
Balance at December 31, 2022							13,918	$ 14	$ (146)	$ 32,844	$ 25,542	$ 58,254
Stock based compensation							-	-	-	362	-	362
Common stock dividends ($0.06 per share)							-	-	-	-	(833)	(833)
Restricted common stock granted	78	-	-	-	-	-	9	-	-	-	-	-
Net income	-	-	-	-	4,246	4,246	-	-	-	-	2,630	2,630
Balance at September 30, 2022	13,905	$ 14	$ (146)	$ 32,365	$ 23,657	$ 55,890						
Balance at March 31, 2023							13,927	$ 14	$ (146)	$ 33,206	$ 27,339	$ 60,413

See accompanying notes to consolidated financial statements.

HireQuest, Inc.

Consolidated Statements of Cash Flows

(unaudited)

(in thousands)	Nine months ended September 30, 2023	Nine months ended September 30, 2022	Three months ended March 31, 2024	Three months ended March 31, 2023
Cash flows from operating activities				
Net income	$ 6,120	$ 9,741	$ 1,619	$ 2,630
Income from discontinued operations	(151)	(304)	73	(312)
Net income from continuing operations	5,969	9,437	1,692	2,318
Adjustments to reconcile net income to net cash (used in) provided by operations:				
Depreciation and amortization	2,096	1,777	698	697
Non-cash interest	348	72	7	328
Allowance for losses on notes receivable	300	233		
Provision for bad debt			67	-
Stock based compensation	1,128	1,892	362	362
Deferred taxes	(17)	(473)	41	135
Loss on disposition of intangible assets	-	2,233	11	-
Non-cash gain	(77)	-		
Changes in operating assets and liabilities:				
Accounts receivable	(4,443)	(1,393)	(3,386)	(2,390)
Prepaid expenses, deposits, and other assets	(1,460)	(745)	603	372
Prepaid workers' compensation	(163)	(504)	(548)	(413)
Accounts payable	(238)	(2,434)	(47)	(241)
Risk management incentive program liability	(356)	(433)	139	239
Other current liabilities	(869)	(320)	(1,131)	760
Accrued payroll, benefits and payroll taxes	(1,008)	(389)	306	(1,326)
Due to franchisees	1,144	3,884	242	526
Workers' compensation claim payment deposit	(238)	(284)	342	(238)
Workers' compensation claims liability	(285)	(1,806)	(292)	(711)
Net cash provided by operating activities - continuing operations	1,831	10,747		
Net cash (used in) provided by operating activities - discontinued operations	(46)	562		
Net cash provided by operating activities	1,785	11,309		
Net cash (used in) provided by operating activities - continuing operations			(894)	418
Net cash used in operating activities - discontinued operations			(73)	(28)
Net cash (used in) provided by operating activities			(967)	390
Cash flows from investing activities				
Purchase of acquisitions	-	(19,133)		
Purchase of property and equipment	(98)	(100)	-	(77)
Proceeds from the sale of purchased locations	-	9,317		
Proceeds from payments on notes receivable	685	610	396	187
Cash issued for notes receivable	(143)	(50)	(13)	(25)
Investment in intangible asset	(290)	(976)	(99)	(82)
Net change in franchisee deposits	156	184	(71)	34
Net cash provided by (used in) investing activities	310	(10,148)		
Net cash provided by investing activities			213	37
Cash flows from financing activities				

Payments on term loan payable	(3,266)	(438)	(169)	(2,977)
Payments related to debt issuance	(131)	-	-	(131)
Net proceeds from revolving line of credit	1,867	2,035	1,988	8,672
Payment of dividends	(2,504)	(2,479)	(838)	(833)
Net cash used in financing activities	(4,034)	(882)		
Net (decrease) increase in cash	(1,939)	279		
Net cash provided by financing activities			981	4,731
Net increase in cash			227	5,158
Cash, beginning of period	3,049	1,256	1,342	3,049
Cash, end of period	$ 1,110	$ 1,535	$ 1,569	$ 8,207
Supplemental disclosure of non-cash investing and financing activities				
Notes receivable issued for the sale of intangible assets	2,017	350	-	2,000
Amounts payable related to the purchase of acquisition	-	1,800		
Supplemental disclosure of cash flow information				
Interest paid	1,124	185	236	204
Income taxes paid, net of refunds	2,040	3,025	78	4

See accompanying notes to consolidated financial statements.

HireQuest, Inc.

Notes to Consolidated Financial Statements

(unaudited)

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 primary business models operating under the trade names "HireQuest Direct", "HireQuest", "Snelling", "DriverQuest", "HireQuest Health", "TradeCorp", "SearchPath", "Northbound Executive Search", "Management Recruiters International", "Sales Consultants" and "MRI". HireQuest Direct specializes primarily in unskilled and semi-skilled industrial and construction personnel. HireQuest, Snelling and Snelling TradeCorp 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, MRI and MRI SearchPath specialize in executive placement and consultant services.

On January 24, 2022, December 4, 2023 we completed our acquisition of Temporary Alternatives, Inc. customer relationships and certain other assets of TEC, The Employment Company ("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 certain assets and liabilities of MRINetwork ("MRI" TEC") for $13.3 million $9.8 million. TEC has been a premier provider of staffing services to the employers and $223 thousand of adjusted net working capital payable. MRI provides executive placement services workers in Northwest and commercial staffing across the US and internationally.
Central Arkansas for over 40 years. For additional information related to these transactions, see *Note 2 - Acquisitions*.

As of September 30, 2023 March 31, 2024, we had 425 428 franchisee-owned offices and 1 company-owned office in 42 states, the District of Columbia, and 13 countries outside of the United States. We are the employer of record to approximately 85,000 80 thousand employees annually, who in turn provide services to thousands of clients in various industries including construction, healthcare, 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"), and with the instructions to Article 8 of Regulation S-X. 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.

These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report filed on Form 10-K for the year ended December 31, 2022 2023. Results for the interim periods presented are not necessarily indicative of the results expected for the full year or for any other period.

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 ("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 the beneficiary. We provide acquisition financing to some of our franchisees that could result in our having to absorb losses. This results in some franchisees being considered VIEs. We have reviewed our relationship with each of these franchisees and determined that we are not the primary beneficiary of any of these entities. Accordingly, we have not consolidated these entities.

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 during the three and ninemonths ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023.

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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.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist of amounts due for staffing services provided to customers of franchisees and of accounts receivable originating at company-owned locations. At September 30, 2023 March 31, 2024, and December 31, 2022 2023, 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 because we do not bear the risk of loss. Otherwise, estimates of expected credit losses on accounts receivable over their life would be recorded at inception, based on historical information, current conditions, and reasonable and supportable forecasts.

For specific MRI franchisees we share in the risk of loss on accounts receivable up to the credit limit set for each specific client. For contract staffing services provided by MRI offices and for our company-owned offices, office, we record accounts receivable at face value less an allowance for doubtful accounts. We determine the allowance for doubtful accounts based on historical write-off experience, the age of the receivable, other qualitative factors and extenuating circumstances, and current economic data which represents our best estimate of the amount of expected credit losses on these accounts receivable, if any. We review the allowance for doubtful accounts periodically and evaluate how conditions that existed during the historical charge-off period may differ from our current expectations and accordingly may revise our estimate of expected credit losses. Our allowance for doubtful accounts on company-owned and purchased other applicable accounts receivable was approximately $186 $266 thousand and $70 $199 thousand at September 30, 2023 March 31, 2024, and December 31, 2022 2023, respectively.

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 franchisees with a lower royalty scale generally pay a flat annual fee plus a percentage-based royalty. For temporary labor, contract staffing, MRI franchises franchisees pay a royalty that ranges from 20% to 25% of payroll, depending on sales volume. Some customers that utilize qualified independent contractors cause the franchise franchisee to pay a royalty that ranges from 4% to 10% of contractor payments, depending on sales volume. Royalty fees from the Snelling and SearchPath franchise agreements assumed and not renegotiated at closing range from 5.0% to 8.0% of sales for services our franchisees provide to customers. Our franchisees are responsible for taking customer orders, providing customers with services, establishing the prices charged for services, and controlling other aspects related to providing service to customers prior to the service being transferred to the customer, such as determining which temporary employees to dispatch to the customer and establishing pay rates for the temporary employees. Accordingly, we present revenue from franchised locations on a net basis as agent as opposed to a gross basis as principal.

For franchised locations, we recognize revenue when we satisfy our performance obligations. Our performance obligations primarily take the form of a franchise license and promised services. Promised services consist primarily of paying temporary employees, completing all statutory payroll related obligations, and providing workers' compensation insurance on behalf of temporary employees. Because these performance obligations are interrelated, we do not consider them to be individually distinct and therefore account for them as a single performance obligation. Because our franchisees receive and consume the benefits of our services simultaneously, our performance obligations are satisfied when our services are provided. Franchise royalties are billed on a weekly basis other than with MRI franchise royalties, which are billed on a monthly basis. We also offer various incentive programs for franchisees including royalty incentives, royalty credits, and other support initiatives. These incentives and credits are provided to encourage new office development and organic growth, and to limit workers' compensation exposure. We present franchise royalty fees net of these incentives and credits.

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):

	Three months ended		Nine months ended		Three months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022	March 31, 2024	March 31, 2023
HireQuest Direct	$ 3,893	$ 4,360	$ 11,780	$ 12,139	$ 3,823	$ 4,078
HireQuest, Snelling, DriverQuest, HireQuest Health, MRI, Northbound, SearchPath and TradeCorp	5,001	3,060	15,140	9,078		
Snelling and HireQuest					2,110	$ 2,433
DriverQuest and TradeCorp					155	$ 137
HireQuest Health					94	$ 91
Northbound, MRI, and SearchPath					1,649	2,584
Total	$ 8,894	$ 7,420	$ 26,920	$ 21,217	$ 7,831	$ 9,323

Service revenue, which forms the other component of our total revenue, consists of interest we charge our franchisees on overdue customer accounts receivable, trademark license fees, and other fees for optional services we provide. We recognize interest income based on the effective interest rate applied to the outstanding principal balance of overdue accounts. License fees are charged to some locations that utilize our intellectual property that are not franchisees. License fees are 9.0% of the gross margin for the location and are recognized when earned. We recognize revenue from optional services as we provide them.

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

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. The Company estimates expected credit losses over the life of its notes receivable as of the reporting date based on relevant information about past events, current conditions, and reasonable and supportable forecasts. The Company records the estimate of expected credit losses as an allowance for credit losses. Our notes receivable are measured at an amortized cost basis with the allowance for credit losses reported as a valuation account on the balance sheet that adjusts the asset's amortized cost basis.

Our notes 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 compare 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 amortized cost basis potential impairment of notes receivable based on various analyses, including estimated discounted future cash flow, at least annually and whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When a note receivable is deemed impaired, we discontinue accruing interest and the fair value of collateral securing the note as of the reporting date. This includes reserves we have collected and hold in cash, any amounts payable to the franchisee, workers' compensation rebates not yet paid to the franchisee, and other items where we legally have the right to offset any note receivable balance due. Our only recognize interest income when payment is received.

The following table summarizes our allowance for credit losses on notes receivable was approximately $560 thousand and $405 thousand at September 30, 2023 and at December 31, 2022and changes during the year ended December 31, 2023, respectively. and changes during the three months ended March 31, 2024.

Allowance for credit losses at December 31, 2022	$	263
Provision for credit losses during 2023		540
Writeoffs charged against the allowance		(180)
Allowance for credit losses at December 31, 2023		623
Provision for credit losses during 2024		-
Allowance for credit losses at March 31, 2024	$	623

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. There was no impairment reserve on notes receivable from non-franchisees at September 30, 2023 or December 31, 2022.

Intangible Assets

Intangible assets acquired are initially 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). 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 during the 2023 three months ended March 31, 2024 or 2022. March 31, 2023.

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. 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.

The table below reflects information related to our intangible assets (in thousands).

		September 30, 2023			December 31, 2022				March 31, 2024			December 31, 2023		
	Estimated useful life	Gross	Accumulated amortization	Net	Gross	Accumulated amortization	Net	Estimated useful life	Gross	Accumulated amortization	Net	Gross	Accumulated amortization	Net

Finite-lived intangible assets:	**Finite-lived intangible assets:**							**Finite-lived intangible assets:**						
Franchise agreements	15 years	$ 25,556	$ (3,690)	$ 21,866	$ 25,556	$ (2,412)	$ 23,144	15 years	$ 25,556	$ (4,542)	$ 21,014	$ 25,556	$ (4,116)	$ 21,440
Purchased software	7 years	3,200	(914)	2,286	3,200	(571)	2,629	7 years	3,200	(1,143)	2,057	3,200	(1,029)	2,171
Internally developed software	5 years	2,583	(383)	2,200	2,294	(39)	2,255	5 years	2,782	(614)	2,168	2,683	(498)	2,185
Total finite-lived intangible assets	Total finite-lived intangible assets	31,339	(4,987)	26,352	31,050	(3,022)	28,028	Total finite-lived intangible assets	31,538	(6,299)	25,239	31,439	(5,643)	25,796
Indefinite-lived intangible assets:	**Indefinite-lived intangible assets:**							**Indefinite-lived intangible assets:**						
Domain name	Indefinite	2,226	-	2,226	2,226	-	2,226	Indefinite	2,226	-	2,226	2,226	-	2,226
Trade name	Indefinite	3,580	-	3,580	3,580	-	3,580	Indefinite	3,580	-	3,580	3,580	-	3,580
Total intangible assets	Total intangible assets	$ 37,145	$ (4,987)	$ 32,158	$ 36,856	$ (3,022)	$ 33,834	Total intangible assets	$ 37,344	$ (6,299)	$ 31,045	$ 37,245	$ (5,643)	$ 31,602

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). exist. 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 September 30, 2023 March 31, 2024 we had a single reporting unit.

The table below summarizes There were no changes to our goodwill at December 31, 2022 and changes during the nine three months ended September 30, 2023 March 31, 2024 (in thousands): .

Goodwill balance at December 31, 2022	$	5,870
Change in goodwill during 2023		-

Goodwill balance at September 30, 2023	$	5,870

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. If necessary, 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 qualitative assessment that was performed during the quarter ended September 30, 2023,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. As such, it was not necessary to perform the quantitative impairment test.

10

Marketing and Advertising

We expense advertising and marketing costs as we incur them. These costs were approximately $329 thousand and $206 thousand during the three months ended March 31, 2024 and March 31, 2023, respectively. These costs are included in general and administrative expenses.

Some of our MRI franchisees are required to pay an advertising fee equal to 0.5% - 1.0% of total net sales, which supports national advertising designed to build brand awareness and drive traffic for both potential customers and potential candidates. The national advertising effort is administered by us, with franchisees providing input. Some examples include subscriptions to various job boards, the creation of digital content for social media, supporting investments in marketing-related software, and purchasing video and print media.

10

Earnings per Share

We calculate basic earnings 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 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 September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023 totaled approximately 173 165 thousand and 240 192 thousand, respectively.

We use the treasury stock method to calculate the diluted common shares outstanding which were as follows (in thousands):

	Three months ended		Nine months ended		Three months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022	March 31, 2024	March 31, 2023
Weighted average number of common shares used in basic net income per common share	13,751	13,610	13,709	13,598	13,800	13,707
Dilutive effects of unvested restricted stock and stock options	69	67	68	90	86	75
Weighted average number of common shares used in diluted net income per common share	13,820	13,677	13,777	13,688	13,886	13,782

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

	September 30, 2023				March 31, 2024			
(in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**
Cash	$ 1,110	$ 1,110	$ -	$ -	$ 1,569	$ 1,569	$ -	$ -
Notes receivable	4,668	-	4,668	-	9,238	-	9,238	-
Accounts receivable	50,171	-	50,171	-	47,712	-	47,712	-
Total assets at fair value	$ 55,949	$ 1,110	$ 54,839	$ -	$ 58,519	$ 1,569	$ 56,950	$ -
Term loans payable	$ 729	$ -	$ 729	$ -	$ 476	$ -	$ 476	$ -
Line of credit	14,409	-	14,409	-	16,107	-	16,107	-
Total liabilities at fair value	$ 15,138	$ -	$ 15,138	$ -	$ 16,583	$ -	$ 16,583	$ -

	December 31, 2022				December 31, 2023			
(in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**
Cash	$ 3,049	$ 3,049	$ -	$ -	$ 1,342	$ 1,342	$ -	$ -
Notes receivable	3,492	-	3,492	-	9,622	-	9,622	-
Accounts receivable	45,728	-	45,728	-	44,394	-	44,394	-
Total assets at fair value	$ 52,269	$ 3,049	$ 49,220	$ -	$ 55,358	$ 1,342	$ 54,016	$ -
Term loan payable	$ 3,995	$ -	$ 3,995	$ -	$ 646	$ -	$ 646	$ -

Line of credit	12,543	-	12,543	-	14,119	-	14,119	-
Total liabilities at fair value	$ 16,538	$ -	$ 16,538	$ -	$ 14,765	$ -	$ 14,765	$ -

For additional information related to our impaired notes receivable, *see Note 11 - 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, upon 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.

Reclassification

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

Recently Adopted Issued Accounting PronouncementsNot Yet Adopted

In June 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2016-13,*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The standard significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard replaced the "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. This guidance was adopted at the beginning of the first quarter of 2023. The adoption of this guidance did not have a significant impact on our financial statements. Related disclosure has been updated to reflect the new standard.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic ("Topic 848 848"), Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. On December 21, 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic ("Topic 848 848"), Deferral of the Sunset Date of Topic 848*, which extends the period of time financial statement preparers can utilize the reference rate reform relief guidance contained in ASU 2022-04. The guidance provides optional practical expedients to ease the potential burden in accounting for contract modifications and hedge accounting related to reference rate reform. The provisions apply only to those transactions that reference the London Inter-Bank Offered Rate (LIBOR) ("LIBOR") or another reference rate expected to be discontinued due to reference rate reform. On February 28, 2023 the Company refinanced its credit agreement and a term loan that each referenced LIBOR into a replacement line of credit that references the Bloomberg Short-Term Bank Yield Index ("BSBY"), therefore the optional expedient is no longer relevant to the Company's financial statements and related disclosures. See Note 4 for further details of the transaction.

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

Recently Issued Accounting Pronouncements

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

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

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

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

Note 2 - Acquisitions

Business Combinations Asset Acquisitions

TEC, The Dubin Group, Inc., and Dubin Workforce Solutions Employment Company

On February 21, 2022 December 4, 2023 we completed our acquisition of the staffing operations customer relationships and certain other assets of The Dubin Group, Inc., and Dubin Workforce Solutions, Inc. (collectively "Dubin") TEC in accordance with the terms of an the Asset Purchase Agreement dated January 19, 2022 October 23, 2023 (the "TEC Agreement"). TEC was a premier provider of industrial staffing services to the employers in Northwest and Central Arkansas 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. over 40 years.

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 estimated fair values of the identifiable assets acquired as of the acquisition date (in thousands): date:

Cash consideration	$	2,100
Note payable & net working capital payable		362
Total consideration	$	2,462
Customer relationships	$	1,600
Customer lists		200
Accounts receivable		462
Goodwill		200
Purchase price allocation	$	2,462

Cash consideration	$	9,750
Total consideration	$	9,750
Customer relationships	$	9,750

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 We determined the TEC transaction was an asset acquisition for accounting purposes as substantially all of the fair value of the gross assets acquired was concentrated in the customer relationships. Accordingly, no pro forma 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 financial 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. presented.

Franchise royalties attributable to the acquiree of approximately $31 thousand and approximately $56$347 thousand are included in our consolidated statement of income for the three months ended September 30, 2023 March 31, 2024, and September 30, 2022, respectively, and approximately $80 thousand and approximately $107 thousand are included in our consolidated statement of income for the nine months ended September 30, 2023, and September 30, 2022, respectively.

	Three months ended		Nine months ended	
	September 30, 2023 (Actual)	September 30, 2022	September 30, 2023 (Actual)	September 30, 2022

Total revenue	$ 9,271	$ 9,361	$ 28,118	$ 27,146
Net income	1,483	4,246	6,120	9,712
Basic earnings per share	$ 0.11	$ 0.31	$ 0.45	$ 0.71
Basic weighted average shares outstanding	13,751	13,610	13,709	13,598
Diluted earnings per share	$ 0.11	$ 0.31	$ 0.45	$ 0.71
Diluted weighted average shares outstanding	13,820	13,677	13,777	13,688

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 Immediately after the acquisition, we divided Dubin into separate businesses and sold certain assets related to the operations of oneall of the acquired locations. assets acquired. 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. approximately $7.6 million. In conjunction with the sale of assets acquired in this transaction, we recognized a loss of approximately $478 thousand during $2.1 million related to incentives given to the three months ended March 31, 2022. Subsequently, purchasers of the fair value of TEC 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, by HQI which is reflected on the line item, "Other miscellaneous income (expense), expense," in our consolidated statement of income for the year ended December 31, 2022 2023. resulting in a net recognized gain of approximately $150 thousand. The remaining assets related to the operations of the other acquired locations have not been sold and as of December 31, 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 location as company-owned.

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 September 30, 2023, the fair value of assets acquired were adjusted in conjunction with a third-party valuation and the net working capital reconciliation. These adjustments included a decrease in customer lists of approximately $375 thousand, a decrease in accounts receivable of approximately $3 thousand, and the recognition of approximately $375 thousand of goodwill. The following table summarizes the revised values of the identifiable assets acquired as of the acquisition date (in thousands).

Cash consideration	$ 6,707
Net working capital payable	336
Total consideration	$ 7,043
Customer lists	$ 4,000
Accounts receivable	2,668
Goodwill	375
Purchase price allocation	$ 7,043

Goodwill represents the expected synergies with our existing business, the acquired assembled workforce, potential new customers, and future cash flows after the acquisition of Temporary Alternatives. Goodwill is deductible for income tax purposes.

The following table presents unaudited pro forma information (in thousands, except per share data) assuming (a) the acquisition of Temporary Alternatives had occurred on January 1, 2021, (b) all of Temporary Alternative’s operations had been converted to franchises on such date, and (c) none of the other acquisitions discussed in this Note 2 had occurred. The unaudited pro forma information is not necessarily indicative of the results of operations that would have been achieved if the acquisition had in fact taken place on that date. Franchise royalties attributable to the acquiree of approximately $119 thousand and approximately $72 thousand are included in our consolidated statement of income for the three months ended September 30, 2023, and September 30, 2022, respectively, and approximately $388 thousand and approximately $252 thousand are included in our consolidated statement of income for the nine months ended September 30, 2023, and September 30, 2022, respectively.

	Three months ended		Nine months ended	
	September 30, 2023 (Actual)	September 30, 2022	September 30, 2023 (Actual)	September 30, 2022
Total revenue	$ 9,271	$ 9,361	$ 28,118	$ 26,940
Net income	1,483	4,246	6,120	10,595
Basic earnings per share	$ 0.11	$ 0.31	$ 0.45	$ 0.78
Basic weighted average shares outstanding	13,751	13,610	13,709	13,598
Diluted earnings per share	$ 0.11	$ 0.31	$ 0.45	$ 0.78
Diluted weighted average shares outstanding	13,820	13,677	13,777	13,688

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 in 2022. 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 $1.5 million which is reflected on the line item, "Other miscellaneous income (expense)," in our consolidated statement of income. The franchisee that purchased these assets is a related party. See *Note 3 - Related Party Transactions* for more information regarding the Worlds Franchisees.

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 September 30, 2023, 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	$	11,428
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	$	11,428

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 $270 thousand and approximately $286 thousand are included in our consolidated statement of income for the three months ended September 30, 2023, and September 30, 2022, respectively and approximately $789 thousand and approximately $717 thousand are included in our consolidated statement of income for the nine months ended September 30, 2023, and September 30, 2022, respectively.

	Three months ended		Nine months ended	
	September 30, 2023 (Actual)	September 30, 2022	September 30, 2023 (Actual)	September 30, 2022
Total revenue	$ 9,271	$ 9,361	$ 28,118	$ 26,982
Net income	1,483	4,246	6,120	10,793
Basic earnings per share	$ 0.11	$ 0.31	$ 0.45	$ 0.79
Basic weighted average shares outstanding	13,751	13,610	13,709	13,598
Diluted earnings per share	$ 0.11	$ 0.31	$ 0.45	$ 0.79
Diluted weighted average shares outstanding	13,820	13,677	13,777	13,688

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 (Bank of America revolving credit agreement). 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. 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 $1.7 million which is reflected on the line item, "Other miscellaneous income (expense)," in our consolidated statement of income for the three months ended March 31, 2022. The franchisee that purchased these operating assets is a related party. For more information. See *Note 3 - Related Party Transactions* regarding the Worlds Franchisees. 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 nine months ended September 30, 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 $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	$	13,283
Customer relationships	$	5,640
Trade name		2,180
Royalty receivable		575
Current assets		581
Goodwill		4,795
Current liabilities assumed		(488)
Purchase price allocation	$	13,283

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 $1.6 million and approximately$5.8 million are included in our consolidated statement of income for the three and nine months ended September 30, 2023, respectively.

	Three months ended		Nine months ended	
	September 30, 2023 (Actual)	September 30, 2022	September 30, 2023 (Actual)	September 30, 2022
Total revenue	$ 9,271	$ 10,655	$ 28,118	$ 29,548
Net income	1,483	5,674	6,120	13,446
Basic earnings per share	$ 0.11	$ 0.42	$ 0.45	$ 0.99
Basic weighted average shares outstanding	13,751	13,610	13,709	13,598
Diluted earnings per share	$ 0.11	$ 0.41	$ 0.45	$ 0.98
Diluted weighted average shares outstanding	13,820	13,677	13,777	13,688

Note 3 - Related Party Transactions

Prior to entering into a new related party transaction which is disclosable pursuant to Item 404 of Regulation S-K, the Audit Committee reviews and monitors all relevant information available. In addition, the Audit Committee reviews a summary of related parties and related party transactions on a quarterly basis. The Audit Committee, in its sole discretion, may approve the related party transaction only if it determines, in good faith and under all circumstances, that the transaction is in the best interests of the Company and its shareholders. The Audit Committee, in its sole discretion, may also impose conditions as it deems appropriate on the Company or the related party in connection with the approval of the related party transaction.

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

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

Edward Jackson, a member of our Board and significant stockholder, and a member of Mr. Jackson's immediate family own Jackson Insurance. Mr. Jackson, Richard Hermanns, our CEO, Chairman of our Board, and largest stockholder, and irrevocable trusts set up by each of them, collectively own a majority of Bass, a large managing general agent.

Jackson Insurance and Bass brokered property, casualty, general liability, and cybersecurity insurance for a series of predecessor entities prior to the 2019 merger with Command Center. 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).

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During the three months ended September 30, 2023March 31, 2024 and September 30, 2022March 31, 2023, Jackson Insurance and Bass invoiced HQI approximately $329 thousand$1.3 million and $-0-, respectively, for premiums, taxes, and fees related to these insurance policies. During the nine months ended September 30, 2023 and September 30, 2022, Jackson Insurance and Bass invoiced HQI approximately $534 thousand and $252$4 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.

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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 three months ended September 30, 2023March 31, 2024 and September 30, 2022March 31, 2023, Insurance Technologies invoiced HQI approximately $208$124 thousand and $82$67 thousand, respectively, for services provided pursuant to this agreement. During the nine months ended September 30, 2023 and September 30, 2022, Insurance Technologies invoiced HQI approximately $318 thousand and $119 thousand, respectively, for services provided pursuant to this agreement.

The Worlds Franchisees

Mr. Jackson and immediate family members of Mr. Hermanns have significant ownership interests in certain of our franchisees (the "Worlds Franchisees"). There were 35 Worlds Franchisees at September 30, 2023March 31, 2024 that operated 7169 of our 426428 franchisee-owned offices. Concurrent with the acquisitions of Temporary Alternatives and Northbound, we sold a portion of the assets acquired to entities partially owned by the Worlds Franchisees. Gross proceeds from the sale of Temporary Alternatives was $2.9 million and we recognized a loss of $1.1 million. Gross proceeds from the sale of Northbound was $6.4 million, and we recognized a loss of $1.3 million.

Other transactions regarding the Worlds Franchisees are summarized below (in thousands):

	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Franchisee royalties	$ 2,414	$ 2,177	$ 7,300	$ 6,442

	Three months ended	
	March 31, 2024	March 31, 2023
Franchisee royalties	$ 2,437	$ 2,438

Balances regarding the Worlds Franchisees are summarized below (in thousands):

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023

Due to franchisee	$	1,110	$	1,468	$ 2,871	$ 2,677
Risk management incentive program liability		401		446	492	267

Note 4 - Line of Credit and Term Loans

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

On February 28, 2023 the Company and all of its subsidiaries as borrowers entered into a Revolving Credit Agreement (the "Credit Agreement") with Bank of America, N.A. for a $50,000,000 revolving facility (the "Senior Credit Facility"), which includes a $20,000,000 sublimit for the issuance of standby letters of credit . credit. The Company also has a one-time right, upon at least ten Business Days' prior written notice to the Bank bank to increase the maximum amount of the Senior Credit Facility to $60 million. The Senior Credit Facility replaced the Company's prior $60 million credit agreement with Truist Bank. $60 million. As of March 31, 2024 this has not been exercised. The Senior Credit Facility provides for certain financial covenants including maintaining an Asset Coverage Ratio of at least 1.0:1.0 at all times; maintaining a Total Funded Debt to Adjusted EBITDA Ratio not exceeding 3.0:1.0; and maintaining, on a consolidated basis, a Fixed Charge Coverage Ratio of at least 1.25:1.0. As of March 31, 2024 we were in compliance with all financial covenants.

Interest will accrue on the outstanding balance of the Line line of Credit credit at a variable rate equal to (a) the BSBY Daily Floating Rate (as defined in the Credit Agreement) plus a margin between 1.00% and 1.75% per annum. In each case, the applicable margin is determined by the Company's Total Funded Debt to Adjusted EBITDA, as defined in the Credit Agreement. At September 30, 2023 March 31, 2024 the effective interest rate was approximately 6.6%. The Senior Credit Facility will mature on February 28, 2028. As part of this refinancing we recorded a loss on debt extinguishment of approximately $310 thousand during the three months ended March 31, 2023, which is reflected on the line item, "Interest and other financing expense," in our consolidated statement of income for the nine months ended September 30, 2023. income.

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

At September 30, 2023 March 31, 2024, approximately $9.2 $9.2 million of availability under the Senior Credit Facility was utilized by outstanding letters of credit that secure our obligations to our workers' compensation insurance carrier, and $500 thousand was utilized by a letter of credit that secures our paycard funding account. For additional information related to the letter of credit securing our workers' compensation obligations see *Note 5 - Workers' Compensation Insurance and Reserves. Reserves*.

Revolving Credit and Term Loan Agreement with Truist Bank

On June 29, 2021 the Company and all of its subsidiaries as borrowers (collectively, the "Borrowers") Borrowers entered into a Revolving Credit and Term Loan Agreement with Truist Bank, as Administrative Agent, and the lenders from time to time made a party thereto (the "Truist Credit Agreement"), pursuant to which the lenders extended the Borrowers (i) a $60 million revolving line of credit with a $20 million sublimit for letters of credit (the "Line "Truist Line of Credit") and (ii) a $3,153,500 term loan (the "Term "Truist Term Loan"). Under the agreement, Truist Bank may could also make Swingline Loans available in its discretion. The Truist Credit Agreement replaced the Company's prior $30 million credit facility with BB&T, now Truist. The Truist Credit Agreement provided for a borrowing base on the Truist Line of Credit that was derived from the Borrowers' accounts receivable subject to certain reserves and other limitations. Interest accrued on the outstanding balance of the Truist Line of Credit at a variable rate equal to (a) the LIBOR Index Rate plus a margin between 1.25% and 1.75% per annum or (b) the then applicable Base Rate, as that term is was defined in the Truist Credit Agreement plus a margin between 0.25% and 0.75% per annum. In each case, the applicable margin was determined by the Company's Average Excess Availability on the Truist Line of Credit, as defined in the Truist Credit Agreement. Interest accrued on the Truist Term Loan at a variable rate equal to (a) the LIBOR Index Rate plus 2.0% per annum or (b) the then applicable Base Rate plus 1.0% per annum. In addition to interest on outstanding principal under the Truist Credit Agreement, the Borrowers paid a commitment fee on the unused portion of the Truist Line of Credit in an amount equal to 0.25% per annum. All loans made pursuant to the Truist Line of Credit were to mature on June 29, 2026. The Truist Term Loan was due to be paid in equal monthly installments based upon a 15-year amortization of the original principal amount of the Truist Term Loan and was payable in monthly installments with the remaining principal balance due and payable in full on the earlier of the date of termination of the commitments on the Truist Line of Credit and June 29, 2036.

The Company utilized the proceeds of the Truist Term Loan (i) first to pay off its prior credit facility, and (ii) second, to pay transaction fees and expenses incurred in connection with closing certain acquisitions.

Term Loan

In connection with the Northbound acquisition, we entered into an amortizing term loan from the seller for $1.5 million scheduled to mature on March 1, 2025 that bears interest at 4.0%. The Northbound term loan is unsecured and subordinated to the Senior Credit Facility. The Northbound term loan is payable in 36 monthly installments beginning on April 1, 2022 until March 1, 2025. We may prepay the Northbound term loan in whole or in part at any time or from time to time without penalty or premium by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment.

The following table provides the estimated future maturities of term loans as of September 30, 2023 March 31, 2024 (in thousands):

2023	84	
2024	514	344
2025	131	132
Total future maturities	729	476

Note 5 - Workers' Compensation Insurance and Reserves

Beginning in Since March 2014, July 15, 2019 one of we have obtained our predecessor entities ("Legacy HQ") obtained its workers' compensation insurance through Chubb Limited and ACE American Insurance Company (collectively, "ACE"), in all states in which we operate other than monopolistic jurisdictions. The ACE policies are large deductible policies where we have primary responsibility for all claims made. ACE provides insurance for covered losses and expenses in excess of $500,000 per incident. Under these large deductible programs we are largely self-insured. Per our contractual agreements with ACE we must provide a collateral deposit of $9.2 million, which we accomplish by providing a letter of credit under our agreement with Bank of America. For workers' compensation claims originating in the monopolistic jurisdictions of North Dakota, Ohio, Washington, 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, or hours worked, within each jurisdiction. Accordingly, our consolidated financial statements reflect only the mandated workers' compensation insurance premium liability for workers' compensation claims in these jurisdictions.
Prior to July 15, 2019, one of our predecessor entities ("Legacy HQ") also obtained its workers' compensation insurance through ACE in all states in which it operated other than monopolistic jurisdictions. The ACE policy was a high deductible policy pursuant to which Legacy HQ had primary responsibility for all claims with ACE providing insurance for covered losses and expenses in excess of $500 thousand per incident. In addition to the ACE policy, Legacy HQ purchased a deductible reimbursement insurance policy from Hirequest Insurance Company ("HQ Ins."), a an independent captive insurer, to cover losses up to the $500 thousand deductible with ACE. This resulted in Legacy HQ effectively being fully insured until the Merger. merger with Command Center. Effective July 15, 2019, Legacy HQ terminated its deductible reimbursement policy with HQ Ins. We assumed the primary responsibility for all claims up to the deductible occurring on or after July 15, 2019. The primary responsibility for all claims occurring before July 15, 2019 remains with HQ Ins.

Command Center, the predecessor entity that acquired Legacy HQ in 2019, also obtained its workers' compensation insurance through ACE. Pursuant to Command Center's most recent policy, which expired on March 1, 2020, ACE provided insurance for covered losses and expenses in excess of $500 thousand per incident. Command Center's ACE policy included 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 were subject to the $500 thousand deductible. Effective July 15, 2019, in connection with the Merger, merger with Command Center, 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, we are effectively self-insured. Per our contractual agreements with ACE, we must provide collateral deposits of approximately $9.2 million, which we accomplished by providing a letter of credit under our agreement with Bank of America. For workers' compensation claims originating in the monopolistic jurisdictions of North Dakota, Ohio, Washington, 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, or hours worked, within each jurisdiction. Accordingly, our consolidated financial statements reflect only the mandated workers' compensation insurance premium liability for workers' compensation claims in these jurisdictions.

Note 6 - Stockholders' Equity

Dividend

In the third quarter of 2020Historically, we initiated the payment of have paid a quarterly dividend and we dividend. We intend to continue to pay a quarterly dividend based on our business results and financial position. The following common share dividends were paid during 2023 2024 and 2022 2023 (total paid in thousands):

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

June 1, 2023	0.06	835	0.06	835
September 1, 2023	0.06	837	0.06	836
December 1, 2023			0.06	836
March 1, 2024			0.06	838

Note 7 - 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 the firstthreemonths of 2024, we issued 863 shares valued at approximately $12 thousand under this program. During the first nine three months of 2023, we issued 3,702 shares valued at approximately $72 thousand under this program. During the first ninemonths of 2022, we issued approximately 10 1,655 thousand shares valued at approximately $151 $29 thousand under this program.

In the first nine three months of 2023 2024, we issued 7,679 5,174 shares of restricted common stock pursuant to the 2019 Plan valued at approximately $162 $69 thousand to members of our Board of Directors for their services in lieu of cash compensation. Of these, 6,397 4,311 shares vested equally over the three months post grant. The remaining 1,282 863 shares were issued pursuant to our share purchase match program. Also in

In the first nine three months of 2023,, we issued 1,261 shares pursuant to our share purchase match program related to open market purchases by members of our Board of Directors.

Also in the firstnine months of 2023, we issued 55,431 2,364 shares of restricted common stock pursuant to the 2019 Plan valued at approximately $1.2 million to key employees for their services in lieu of cash compensation. Of these, 9,272 shares were issued to our CEO and vest equally over the three months post grant. Of the remaining shares, 45,000 vest over 4 years and 1,159 shares were issued pursuant to our share purchase match program and vest the second anniversary of the date of grant.

In the firstnine months of 2022, we issued 12,512 shares of restricted common stock pursuant to the 2019 Plan valued at approximately $205 $52 thousand to members of our Board of Directors for their services in lieu of cash compensation. Of these, 10,532 1,970 shares vested equally over the three months post grant. The remaining 1,980 394 shares were issued pursuant to our share purchase match program.

Also in the first nine three months of 2022, 2023, we issued 94,871 5,000 shares of restricted common stock pursuant to the 2019 Plan valued at approximately $1.5 million $79 thousand to a key employees employee for their services in lieu of cash compensation. Of these, 41,066 shares vested equally over the three months post grant. Of the remaining 53,805 shares, 50,000 were issued to our CEO pursuant to his employment contract compensation which vest over 4 years, and 3,805 shares were issued pursuant to our share purchase match program. In addition, years. Also in the firstthree months of 2023, we issued 28,735 1,261, shares of restricted common stock pursuant to the 2019 Plan to members of our Board of Directors valued at approximately $537 $20 thousand to the vast majority of our workforce for services and to encourage retention. These shares that vest on the first anniversary of the date of grant. over 2 years.

The following table summarizes our restricted stock outstanding at December 31, 2022 2023, and changes during the nine three months ended September 30, 2023 March 31, 2024 (number of shares in thousands).

	Shares	Weighted average grant date price	Shares	Weighted average grant date price
Non-vested, December 31, 2022	202	$ 15.15		
Non-vested, December 31, 2023			155	$ 17.52
Granted	64	20.84	5	13.34

Vested	*(107)*	*15.04*	*(13)*	*15.46*
Non-vested, September 30, 2023	*159*	*17.99*		
Non-vested, March 31, 2024			*147*	*17.55*

Stock options that were outstanding at Command Center were deemed to be issued on the date of the Merger. merger with Legacy HQ. Outstanding awards continue to remain in effect according to the terms of the Command Center 2008 Plan, the Command Center 2016 Plan, and the corresponding award documents. There were approximately 13 thousand stock options vested at September 30, 2023 March 31, 2024 and December 31, 2022 2023.

The following table summarizes our stock options outstanding at December 31, 2022 2023, and changes during the nine three months ended September 30, 2023 March 31, 2024 (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, 2022	*13*	*$ 5.47*	*$ 2.98*
Granted	*-*	*-*	*-*
Outstanding, September 30, 2023	*13*	*5.47*	*2.98*

	Number of shares underlying options	***Weighted average exercise price per share***	***Weighted average grant date fair value***
Outstanding, December 31, 2023	*13*	*$ 5.47*	*$ 2.98*
Granted	*-*	*-*	*-*
Outstanding, March 31, 2024	*13*	*5.47*	*2.98*

There were no non-vested stock options outstanding at September 30, 2023 March 31, 2024 or at December 31, 2022 2023.

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 $15.43 $12.95 at September 30, 2023 March 31, 2024 (number of shares and intrinsic value in thousands).

	Number of shares underlying options	***Weighted average exercise price per share***	***Weighted average remaining contractual life (years)***	***Aggregate intrinsic value***
Outstanding and exercisable	*13*	*$ 5.47*	*4.5*	*$ 129*

	Number of shares underlying options	***Weighted average exercise price per share***	***Weighted average remaining contractual life (years)***	***Aggregate intrinsic value***
Outstanding and exercisable	*13*	*$ 5.47*	*4.0*	*$ 97*

At September 30, 2023 March 31, 2024, there was unrecognized stock-based compensation expense totaling approximately $1.9 million $1.3 million relating to non-vested restricted stock grants that will be recognized over the next 3.9 3.7 years.

Note 8 - Commitments and Contingencies

Franchise Acquisition Indebtedness

New franchisees financed the purchase of several offices with promissory notes. In some instances, this financing resulted in certain franchises being considered VIEs. 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(s). The balance due from the franchises determined to be VIEs was approximately $4.2 million $7.9 million and $2.9 $8.2 million on September 30, 2023 March 31, 2024 and December 31, 2022 2023, 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 September 30, 2023 March 31, 2024.

Note 9 - Income Tax

Income tax expense during interim periods is based on applying an estimated annual effective income tax rate to year-to-date income, plus any significant unusual or infrequently occurring items which are recorded in the interim period. The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including, but not limited to, the expected operating income for the year and changes in tax law and tax rates. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is obtained, additional information becomes known, or the tax environment changes.

Our effective tax rate for continuing operations during the three months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023 was 16.724.5%% and 18.6%, respectively. Our effective tax rate for continuing operations during the nine months ended September 30, 2023 and September 30, 2022 was 20.4% and 16.5% 19.1%, respectively. The bulk of primary reason for the difference between the statutory federal income tax rate of 21.0% and our effective income tax rate results from the bargain purchase gain, which is recorded net of deferred taxes and is treated as a permanent difference, and the federal Work Opportunity Tax Credit, which is designed to encourage employers to hire workers from certain targeted groups with higher-than-average unemployment rates. Other differences result from state income taxes, certain non-deductible expenses, and tax effects of stock-based compensation.

We use an intra-period tax allocation to allocate total income tax expense (or benefit) or benefit to the different components of continuing operations and discontinued operations. This allocation uses a with and without methodology to determine income tax expense for discontinued operations. Tax (benefit) expense (expense) benefit allocated to discontinued operations was $(37) $(24) thousand and $32 $99 thousand for the three months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023, respectively. Tax expense allocated to discontinued operations was $48 thousand and $98 thousand for the nine months ended September 30, 2023 and September 30, 2022, respectively.

Note 10 - Discontinued Operations

In connection with the Dubin acquisition, certain assets acquired are still owned by us and classified as held-for-sale. When we acquired Dubin, there were two business lines. Dubin Workforce Solutions specialized in temporary labor assignments. The Dubin Group focused on permanent recruiting. We immediately sold the assets of Dubin Workforce Solutions to a new franchisee. There was not a franchisee identified for the Dubin Group portion of the business, however, we began marketing the franchise and classified it as held-for-sale immediately upon acquisition. We entered into an employment agreement with the seller to continue managing the business as a Company-owned location while it was held-for-sale. During 2022, 2023, we actively solicited but did not receive any reasonable offers to purchase the assets and, in response, have adjusted the price. The franchise continues to be actively marketed at a price that is reasonable given its results of operation. We expect to complete a sale of these assets within the next 12 months.

When we acquired Dental Power in 2021, we used the platform to build a customer base in the dental-oriented sector of the staffing industry to increase revenue opportunities under the HireQuest Health brand. Once we acquired MRI in December 2022, there were a number of natural buyers within the MRI Network. At that time we reclassified Dental Power to held-for-sale. On March 1, 2023, we agreed to sell the Dental Power assets to an MRI franchisee, who will continue to operate the business as part of their franchise. The sale agreement calls for proceeds of $2 million payable over 5 years with a market rate of interest. We recognized a gain of approximately $340 thousand in the first quarter of 2023 upon completion of the transaction.

Intangible assets associated with discontinued operations consist of a customer lists list with a net carrying value of approximately $1.4 million and $3.1 million $891 thousand on September 30, 2023 March 31, 2024 and December 31, 2022 2023, respectively. .

The net (loss) income from discontinued operations amounts as reported on our consolidated statements of operations was comprised of the following amounts (in thousands):

	Three months ended		Nine months ended		Three months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022	March 31, 2024	March 31, 2023
Revenue	$ 209	$ 1,815	$ 1,688	$ 4,786	$ 96	$ 1,255
Cost of staffing services	102	1,296	1,106	3,336	39	862
Gross profit	107	519	582	1,450	57	393
Selling, general and administrative expenses	(116)	(286)	(579)	(789)	(143)	(322)
Depreciation & amortization	-	(104)	-	(259)		
(Loss) gain on sale of intangible assets	(143)	-	196	-	(11)	340
Net (loss) income before tax	(152)	129	199	402	(97)	411
(Benefit) provision for income taxes	(37)	31	48	98	(24)	99
Net (loss) income	$ (115)	$ 98	$ 151	$ 304	$ (73)	$ 312

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Note 11 - 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 $4.7$9.2 million and $3.59.6 million as of September 30, 2023March 31, 2024 and December 31, 20222023, 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 $83$136 thousand and $51$46 thousand during the three months ended September 30, 2023March 31, 2024 and September 30, 2022March 31, 2023, respectively. Interest income was approximately $197 thousand and $157 thousand during the nine months ended September 30, 2023 and September 30, 2022, respectively.

We estimate the allowance for credit losses for franchisees separately from the allowance for credit 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 available collateral historical information, current conditions, and reasonable and supportable forecasts, we have established an allowance of approximately $560 thousand and $405$623 thousand as of September 30, 2023March 31, 2024 and December 31, 20222023, respectively, for credit losses from franchisees.

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

	September 30, 2023	December 31, 2022
Note receivable	$ 5,228	$ 3,752
Allowance for losses	(560)	(260)
Notes receivable, net	$ 4,668	$ 3,492

Notes from Non-Franchisees

During 2020, the California licensee experienced significant economic hardships due to the impacts of COVID-19 and the related government mandates in the state. As a result, we restructured a portion of their note payable to the Company in an effort to increase the probability of repayment. We granted near-term payment concessions in 2021 to help the debtor attempt to improve its financial condition so it may eventually be able to repay the amount due. After reviewing the potential outcomes, we recorded an additional impairment of approximately $233 thousand in June 2022. In August 2022 we provided a third forbearance agreement to avoid foreclosure action. 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 did not receive or recognize any interest income during the three months ended September 30, 2023 or September 30, 2022. We received and recognized interest income of approximately $-0- and $41 thousand during the nine months ended September 30, 2023 and September 30, 2022, respectively. There was no balance due from non-franchisees at September 30, 2023 or December 31, 2022.

Note 12 - Subsequent Events

On October 23, 2023, subsequent to the date of these financial statements, we entered into an agreement to acquire certain assets of TEC Staffing Services, Inc. ("TEC") for approximately $9.8 million. TEC has 10 locations across Arkansas that provide light industrial, clerical, technical, and professional staffing services. TEC generated over $34 *million in total revenue for the trailing 12-month period ended September 30, 2023. We intend to convert the offices to the Snelling franchise model and offer to prospective buyers as franchises. We intend to finance this acquisition with our Senior Credit Facility, and recover the proceeds through the subsequent franchising of operations and royalties from future operations.*

	March 31, 2024	December 31, 2023
Note receivable	$ 9,861	$ 10,245
Allowance for losses	(623)	(623)
Notes receivable, net	$ 9,238	$ 9,622

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and the related notes included in Item 1 of Part I of this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 December 31, 2023. The financial position, results of operations, cash flows and other information included herein are not necessarily indicative of the financial position, results of operations and cash flows that may be expected in future periods. See "Special Note Regarding Forward-Looking Statements" and "Part II - Item 1A. Risk Factors" below for a discussion of uncertainties and assumptions that may cause actual results to differ materially from those expressed or implied in the forward-looking statements. Additionally, we use a non-GAAP financial measure and a key performance indicator to evaluate our results of operations. For important information regarding the use of such non-GAAP measure, including a reconciliation to the most comparable GAAP measure, see the section titled "Use of Non-GAAP Financial Measure: Adjusted EBITDA" below. For important information regarding the use of such key performance indicator, see the section titled "Key Performance Indicator: System-Wide Sales" below.

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q and other documents incorporated herein by reference include, and our officers and other representatives may sometimes make or provide, certain estimates and other forward-looking statements within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act, and Section 21E of the Exchange Act, including, among others, statements with respect to future revenue; franchise sales and system-wide sales; net income and Adjusted EBITDA (a Non-GAAP Financial Measure); operating results; dividends and shareholder returns; cost synergies of any mergers or acquisitions including those we have completed in 2022 and 2023; intended office openings or closings; expectations of the effect on our financial condition of claims and litigation; strategies for customer retention and growth; strategies for risk management; all other statements that are not purely historical and that may constitute statements of future expectations; and the impact of any global pandemic including COVID-19. Forward-looking statements can be identified by words such as: "anticipate," "intend," "plan," "goal," "seek," "believe," "project," "estimate," "expect," "strategy," "future," "likely," "may," "should," "will," and similar references to future periods.

While we believe these statements are accurate, forward-looking statements are not historical facts and are inherently uncertain. They are based only on our current beliefs, expectations, and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy, and other future conditions. We cannot assure you that these expectations will occur, and our actual results may be significantly different. Therefore, you should not place undue reliance on these forward-looking statements. Important factors that may cause actual results to differ materially from those contemplated in any forward-looking statements made by us include the following: the level of demand and financial performance of the temporary staffing and permanent placement industry; the financial performance of our franchisees; our and our franchisees' customers' ability to navigate successfully the challenges posed by the current instability of the financial markets; strategic actions, including acquisitions and dispositions and our success in integrating acquired businesses including without limitation, successful integration following the acquisitions of the MRI Network, Selling Staffing, LINK, Recruit Media, Dental Power, Dubin, Temporary Alternatives, Inc. and subsequent or smaller acquisitions; the impacts of COVID-19 or other diseases or pandemics; the overall economic environment including the impact of any potential recession; changes in customer demand; the extent to which we are successful in gaining new long-term relationships with customers or retaining existing ones: the level of service failures that could lead customers to use competitors' services; workers' compensation expenses that fluctuate from period to period based on the mix of classifications, the level of payroll, recent claims resolution and cumulative experience; significant investigative or legal proceedings including, without limitation, those brought about by the existing regulatory environment or changes in the regulations governing the temporary staffing industry and those arising from the action or inaction of our franchisees and temporary employees; disruptions to our technology network including computer systems and software whether resulting from a cyber-attack or otherwise; natural events such as severe weather, fires, floods, and earthquakes, or man-made or other disruptions of our operating systems or the economy including by war; the factors discussed in the "Risk Factors" section below and in our most recent Annual Report on Form 10-K, which we filed with the SEC on March 21, 2023; and the other factors discussed in this Quarterly Report and our Annual Report.

Any forward-looking statement made by us in this Quarterly Report on Form 10-Q is based only on information currently available to us and speaks only as of the date on which it is made. The Company disclaims any obligation to update or revise any forward-looking statement, whether written or oral, that may be made from time to time, based on the occurrence of future events, the receipt of new information, or otherwise, except as required by law.

Overview

HireQuest, Inc., together with its subsidiaries, ("HQI," the "Company," "we," us," or "our") is a nationwide franchisor of offices providing direct-dispatch, executive search, commercial staffing, and permanent placement solutions primarily in the light industrial, blue-collar, executive, managerial, and administrative segments of the staffing industry. Our franchisees provide various types of temporary personnel, permanent placements, and recruitment services through multiple business models under the trade names "HireQuest Direct," "Snelling," "HireQuest," "DriverQuest," "HireQuest Health," "TradeCorp," "Northbound Executive Search," "SearchPath," "Management Recruiters International," "MRI," and "Sales Consultants." Some of the MRI franchises also operate under other brands specific to a locality.

- *HireQuest Direct focuses on daily-work/daily-pay jobs primarily for construction and light industrial customers.*
- *TradeCorp focuses on skilled laborers and tradespeople, including apprentice, journeyman, and master-level professionals.*
- *Snelling, HireQuest, and TradeCorp focus on longer-term staffing positions in the light industrial and administrative arenas.*
- *DriverQuest specializes in both commercial and non-CDL drivers serving a variety of industries and applications.*
- *HireQuest Health specializes in skilled personnel in the healthcare and dental industries.*
- *Northbound Executive Search, MRI and SearchPath focus on executive, managerial, and professional recruitment services, although they also offer short-term consultant services.*

Our brands exhibit similar long-term financial performance and have similar economic characteristics. Therefore, we provide our services under a single operating division or segment. However, we strive to provide additional information and disclosures related to business models where appropriate.

As of September 30, 2023 March 31, 2024 we had 425 428 franchisee-owned offices and 1 company-owned office in 42 states, the District of Columbia, and 13 countries outside of the United States, and we licensed our trade names to 6 offices in California. In addition, on such date, there were 5 MRI locations that provided contract staffing services only. We provide employment for an estimated 85 80 thousand temporary employees annually working for thousands of clients in many industries including construction, healthcare, recycling, warehousing, logistics, auctioneering, manufacturing, hospitality, landscaping, retail, and dental.

Management is pursuing a strategy that includes organic and acquisition growth components. Our organic growth strategy includes expanding existing client business, seeking out national and global account opportunities for our franchisees, access to capital for our franchisees to expand into new markets, and offering new franchises to qualified applicants. Part of this growth strategy includes an expansive training program for our franchisees to start, operate and grow their business. Our acquisition growth strategy includes identifying strategic, accretive, "tuck-in" acquisitions financed primarily through a combination of cash and debt (including seller financing), the issuance of equity in appropriate circumstances, and the use of earn-outs where efficient to protect the negotiated value and future cash flows.

Recent Developments

TEC, TheTemporary AlternativesAcquisition Employment Company

On January 24, 2022, October 23, 2023 we completed our acquisition of entered into an agreement to acquire certain assets of Temporary Alternatives in accordance with the terms of the Asset Purchase Agreement dated January 10, 2022, including three locations in West Texas and New Mexico TEC, The Employment Company ("TEC") for approximately $7.0 $9.8 million. TEC has 10 locations across Arkansas that provide light industrial, clerical, technical, and professional staffing services. TEC generated over $34 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. total revenue for the trailing 12-month period ended September 30, 2023. The acquisition of Temporary Alternatives TEC expanded our national footprint into West Texas presence in Arkansas and grew our franchise base, as we immediately entered into a new franchise agreement agreements and sold the non-working capital all of assets acquired. We funded this acquisition with existing cash on hand our Senior Credit Facility and a draw on our pre-existing line of credit with Truist.

The Dubin Acquisition

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 metropolitan area. The acquisition of Dubin expedited growth into a new staffing vertical, expanded our national footprint, and grew our franchise base. We funded this acquisition with existing cash on hand, deferred purchase payments, and a draw on our pre-existing line of credit with Truist. We divided Dubin into separate businesses and sold certain customer related assets of one of the acquired locations to a new franchisee. The remaining assets proceeds related to the operations near simultaneous franchising of the other acquired location have not been sold and as of September 30, 2023 remain classified as held-for-sale. In the meantime, we operate the Philadelphia franchise as company-owned.

TheNorthboundAcquisition

On February 28, 2022, we completed our acquisition of certain assets of Northbound Executive Search, LTD ("Northbound") in accordance with the terms of an Asset Purchase Agreement dated January 25, 2022, for approximately $11.4 million, inclusive of a $1.5 million note payable and a prescribed amount of working capital. Northbound provides executive placement and short-term consultant services primarily to blue chip clients in the financial services industry. The acquisition of Northbound expedited growth into a new *staffing vertical, expanded our national footprint, and grew our franchise base, as we immediately entered into a franchise agreement and sold the customer-related assets acquired. We funded this acquisition with existing cash on hand, seller financing of $1.5 million, and a draw on our pre-existing line of credit with Truist.*

TheMRINetwork Acquisition

On December 12, 2022, we completed our acquisition of certain assets of MRINetwork ("MRI") in accordance with the terms of an Asset Purchase Agreement dated November 16, 2022, for approximately $13.3 million, inclusive of a limited amount of working capital. MRI has been a leader in the recruitment industry since 1965 and has grown into one of the largest franchised executive search and recruitment organizations in the world. We funded this acquisition with existing cash on hand, and a draw on our pre-existing line of credit with Truist. operations.

Results of Operations

Financial Summary

The following table displays our consolidated statements of operations for the three-month and nine-month periods ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023. Percentages reflect the line item as a percentage of total revenue (in thousands, except percentages).

	Three months ended				Nine months ended				Three months ended			
	September 30, 2023		September 30, 2022		September 30, 2023		September 30, 2022		March 31, 2024		March 31, 2023	
Franchise royalties	$ 8,894	95.9 %	$ 7,420	94.5 %	$ 26,920	95.7 %	$ 21,217	92.7 %	$ 7,831	93.0 %	$ 9,323	94.6 %
Service revenue	377	4.1 %	429	5.5 %	1,198	4.3 %	1,677	7.3 %	588	7.0 %	534	5.4 %
Total revenue	9,271	100.0 %	7,849	100.0 %	28,118	100.0 %	22,894	100.0 %	8,419	100.0 %	9,857	100.0 %
Selling, general and administrative expenses	6,354	68.5 %	2,111	26.9 %	17,824	63.4 %	7,989	34.9 %	5,619	66.7 %	5,844	59.3 %
Depreciation and amortization	699	7.5 %	497	6.3 %	2,096	7.5 %	1,518	6.6 %	698	8.3 %	697	7.1 %
Income from operations	2,218	23.9 %	5,241	66.8 %	8,198	29.2 %	13,387	58.5 %	2,102	25.0 %	3,316	33.6 %
Other miscellaneous income (expense)	117	1.3 %	(99)	(1.3)%	259	0.9 %	(2,021)	(8.8)%				
Other miscellaneous income									37	0.4 %	43	0.4 %
Interest income	83	0.9 %	51	0.6 %	197	0.7 %	198	0.9 %	136	1.6 %	46	0.5 %
Interest and other financing expense	(302)	(3.3)%	(99)	(1.3)%	(1,155)	(4.1)%	(256)	(1.1)%	(243)	(2.9)%	(540)	(5.5)%
Net income before income taxes	2,116	22.8 %	5,094	64.9 %	7,499	26.7 %	11,308	49.4 %	2,032	24.1 %	2,865	29.1 %
Provision for income taxes	518	5.6 %	946	12.1 %	1,530	5.4 %	1,871	8.2 %	340	4.0 %	547	5.5 %
Net income from continuing operations	1,598	17.2 %	4,148	52.8 %	5,969	21.2 %	9,437	41.2 %	1,692	20.1 %	2,318	23.5 %
Net (loss) income from discontinued operations, net of tax	(115)	(1.2)%	98	1.2 %	151	0.5 %	304	1.3 %	(73)	(0.9)%	312	3.2 %
Net income	$ 1,483	16.0 %	$ 4,246	54.1 %	$ 6,120	21.8 %	$ 9,741	42.5 %	$ 1,619	19.2 %	$ 2,630	26.7 %
Non-GAAP data												
Adjusted EBITDA	$ 3,742	40.4 %	$ 6,539	83.3 %	$ 12,194	43.4 %	$ 17,661	77.1 %	$ 3,357	39.9 %	$ 4,581	46.5 %

Use of Non-GAAP Financial Measure: Adjusted EBITDA

Adjusted EBITDA is a non-GAAP measure that represents our net income before interest expense, provision for income taxes, depreciation and amortization, costs related to the work opportunity tax credit ("WOTC"), non-cash compensation and acquisition-related charges, net, and other charges and gains we consider non-recurring. We utilize Adjusted EBITDA as a financial measure as management believes investors find it a useful tool to perform meaningful comparisons and evaluations of past, present, and future operating *results. We believe it is a complement to net income and other financial performance measures. Adjusted EBITDA is not intended to represent or replace net income as defined by U.S. GAAP and should not be considered as an alternative to net income or any other measure of performance prescribed by U.S. GAAP. We use Adjusted EBITDA to measure our financial performance because we believe interest, taxes, depreciation and amortization, WOTC-related costs, non-cash compensation, acquisition-related charges, net and other non-recurring charges and gains bear little or no relationship to our operating performance.*

- *By excluding interest expense, Adjusted EBITDA measures our financial performance irrespective of our capital structure or how we finance our operations.*
- *By excluding taxes on income, we believe Adjusted EBITDA provides a basis for measuring the financial performance of our operations excluding factors that are beyond our control.*
- *By excluding depreciation and amortization expense, Adjusted EBITDA measures the financial performance of our operations without regard to their historical cost.*
- *By excluding WOTC related costs, Adjusted EBITDA provides a basis for measuring the financial performance of our operations excluding the costs associated with qualifying for this tax credit.*
- *By excluding non-cash compensation, Adjusted EBITDA provides a basis for measuring the financial performance of our operations excluding the value of our restricted stock and stock option awards.*
- *By excluding acquisition-related charges, net, Adjusted EBITDA provides a basis for measuring the financial performance of our operations without regard to gains or losses that arise from acquisitions.*
- *By excluding other non-recurring charges and gains, Adjusted EBITDA provides a basis for measuring financial performance without such items.*

In addition, our Credit Agreement requires us to comply with a fixed charge coverage ratio and a leverage ratio, both of which include Adjusted EBITDA substantially as defined above. For all of these reasons, we believe that Adjusted EBITDA provides us, and investors, with information that is relevant and useful in evaluating our business.

However, because Adjusted EBITDA excludes depreciation and amortization, it does not measure the capital we require to maintain or preserve our fixed and intangible assets. In addition, because Adjusted EBITDA does not reflect interest expense, it does not take into account the total amount of interest we pay on outstanding debt, nor does it show trends in interest costs due to changes in our financing or changes in interest rates. Adjusted EBITDA, as defined by us, may not be comparable to Adjusted EBITDA as reported by other companies that do not define Adjusted EBITDA exactly as we define the term. Because we use Adjusted EBITDA to evaluate our financial performance, we reconcile it to net income, which is the most comparable financial measure calculated and presented in accordance with U.S. GAAP below (in thousands).

	Three months ended		Nine months ended		Three months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022	March 31, 2024	March 31, 2023
Net income	$ 1,483	$ 4,246	$ 6,120	$ 9,741	$ 1,619	$ 2,630
Interest expense	302	99	1,155	256	243	540
Provision for income taxes	518	946	1,530	1,871	340	547
Depreciation and amortization	699	497	2,096	1,518	697	697
EBITDA					2,899	4,414
WOTC related costs	68	157	339	450	85	145
EBITDA	3,070	5,945	11,240	13,836		
Non-cash compensation	306	584	928	1,194	362	362
Acquisition related charges, net	66	10	(274)	2,397	11	(340)
Impairment of notes receivable	300	-	300	234		
Adjusted EBITDA	$ 3,742	$ 6,539	$ 12,194	$ 17,661	$ 3,357	$ 4,581

Three Months Ended September 30, 2023 March 31, 2024 Compared to the Three Months Ended September 30, 2022 March 31, 2023

Revenue

Our total revenue consists of franchise royalties and service revenue we receive from our franchises. Revenue would also include staffing revenue with respect to owned locations, when applicable. Once a company-owned office is sold, disposed of, or otherwise classified as held-for-sale, it would not be reflected in revenue and instead reported as "Income from discontinued operations, net of tax." For a description of our revenue recognition practices, please refer to "Note 1 – Overview and Summary of Significant Accounting Policies – Revenue Recognition," and "Critical Accounting Estimates – Revenue Recognition," which disclosure is incorporated herein by reference. Revenue does not include any owned locations for the three months ended September 30, 2023 March 31, 2024 or the three months ended September 30, 2022 March 31, 2023.

Total revenue for the three months ended September 30, 2023 March 31, 2024 was approximately $9.3 million $8.4 million compared to $7.8 million $9.9 million for the three months ended September 30, 2022 March 31, 2023, an increase a decrease of 18.1% 14.6%. For the quarter ended September 30, 2023 March 31, 2024, there was a 24.3% increase $19.5 million or 12.7% decrease in underlying system-wide sales when compared to the prior year quarter. Revenue as a percentage of system-wide sales was 6.1% 6.3% for the three months ended September 30, 2023 March 31, 2024 versus 6.5% 6.4% for the three months ended September 30, 2022 March 31, 2023. Because MRINetwork focuses on recruitment services, which carry The decrease in Total Revenue was primarily driven by a lower royalty percentage, absolute revenue did not increase at weakening across the same pace as board in system-wide sales. The net revenue rate (as sales including a percentage decrease in system-wide sales of system-wide sales) is lower for the same reason. $12.3 million in MRI.

Franchise Royalties

Franchise royalties for the three months ended September 30, 2023 March 31, 2024 were approximately $8.9 million, $7.8 million, an increase decrease of 19.9% 16.0% from $7.4 million $9.3 million for the three months ended September 30, 2022 March 31, 2023. Of the $1.5 million net increase, decrease, approximately $1.6 million was due $1.0 million was related to the MRINetwork acquisition, offset by a decrease from pre-existing locations. in system-wide sales in MRI. Our net effective royalty rate (as a percentage of external system-wide sales) was 5.9% 5.8% for the three-month period ended September 30, 2023 March 31, 2024 compared to 6.1% for the three months ended September 30, 2022 March 31, 2023. Our net effective royalty rate will generally fluctuate due to mix of business among the various royalty models under which we operate, as well as incentives we offer during the year. As noted above, the net royalty rate for the MRINetwork is lower due to a larger proportion of recruitment services. A summary of franchise royalties by brand for the three months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023 are as follows (in thousands):

	Three months ended		Three months ended	
	September 30, 2023	September 30, 2022	March 31, 2024	March 31, 2023
Franchise royalties from HireQuest Direct	$ 3,893	$ 4,360	$ 3,823	$ 4,012
Franchise royalties from Snelling and HireQuest	2,179	2,747	2,110	2,399
Franchise royalties from DriverQuest and TradeCorp	73	37	155	135
Franchise royalties from HireQuest Health	119	(10)	94	90
Franchise royalties from Northbound, MRI, and SearchPath	2,630	286	1,649	2,687
Franchise royalties	$ 8,894	$ 7,420	$ 7,831	$ 9,323

Service Revenue

Service revenue consists of interest we charge our franchisees on overdue customer accounts receivable and other miscellaneous fees for optional services we provide. Direct costs to provide certain services are reflected as a reduction in service revenue. As accounts receivable age over 42 days, our franchisees pay us interest on these accounts equal to 0.5% of the amount of the uncollected receivable each 14-day period. All accounts that age beyond 84 days are charged back to the franchisee and no longer incur interest, although some of our franchisees elect to charge back accounts that age over 42 days in order to avoid the interest charge. 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. We have no employees and provide no services at the licensed locations. Service revenue also includes amounts charged for various optional services and cost-sharing arrangements such as bulk vendor programs or IT license blocks. Generally, we do not profit from these arrangements as they represent pass-through items, although there may be timing differences. In addition, there are occasionally classification differences where the cost is embedded in selling, general and administrative expenses.

Service revenue for the three months ended September 30, 2023 March 31, 2024 was approximately $377 $588 thousand, a decrease an increase of $52 $54 thousand from the three months ended September 30, 2022 March 31, 2023, when service revenue was approximately $429 $534 thousand. This decrease is almost entirely related to interest Interest income, which is included in service revenue. Interest income revenue was $197 $185 thousand for the three months ended September 30, 2023 March 31, 2024 and $252 $254 thousand for the three months ended September 30, 2022 March 31, 2023. Fluctuations in interest generally follow the mix of aged accounts in our accounts receivable, although relatively few age over 42 days and result in service revenue for us. Many of our franchisees have elected to charge back accounts early in order to avoid or reduce the interest charge. Therefore, there will not be a proportionally large increase in service revenue even when there is a large increase in accounts receivable. We pride ourselves on maintaining quality, creditworthy customers who pay timely. We view the imposition of higher interest rates on aged accounts receivable to serve as an incentive for our franchisees to select credit-worthy customers.

Service revenue is expected to fluctuate from quarter-to-quarter.

Operating Expenses

Operating expenses for the three months ended September 30, 2023 March 31, 2024 were approximately $7.1 million $6.3 million compared to $2.6 million $6.5 million for the three months ended September 30, 2022 March 31, 2023, an increase a decrease of 170.5%. 3.4% or $224 thousand. The increase decrease primarily relates to workers' a reduction in compensation and variable administrative and overhead costs that we incurred as a result of growth following the MRI Network Acquisition, and that are described below, as well as additional amortization benefits related to intangibles acquired a 9.8% reduction in that acquisition. headcount. Overall, operating expenses represented 4.7% of system-wide-sales in the three months ended September 30, 2023 March 31, 2024 versus 2.1% 4.3% of system-wide sales in the three months ended September 30, 2022 March 31, 2023.

Workers' Compensation

Workers' compensation expense was approximately $1.5 million $572 thousand for the three months ended September 30, 2023 March 31, 2024, an increase of $2.8 million $387 thousand when compared to a net benefit expense of approximately $1.3 million $185 thousand recorded in the three months ended September 30, 2022 March 31, 2023. Our workers' compensation reserves provide benefits following a workplace injury. Benefits are usually statutory in nature and are generally provided in partial or complete replacement of the injured worker's recourse to the liability system. Payments may include medical treatment, rehabilitation, lost wages, and survivor benefits. Workers compensation rating is typically based on job classification, and our workers fall in hundreds of classifications. Annually, we use third-party actuaries to ensure that the overall ratings are sound, that individual insurer rates are adequate, and that individual risks receive a fair rate that reflects both the characteristics of the job classification and the Company's risk experience. The company pays premiums, actual claims, and establishes reserves for future claims. In turn we charge our franchises a percentage of payroll as determined by our workers' compensation carrier, plus or minus certain incentives and charges we provide for good or bad workers' compensation claims history. The overall charge is an estimate of the fully developed future costs and may not always coincide with the actual costs we incur resulting in expense or benefit in a given period. Over the long-term, our workers' compensation expense should equal the amounts we collect from franchisees and essentially be a pass-through cost. In the short-term, we cannot accurately predict the effects of workers' compensation in specific future periods, and historical trends are not indicative of future results.

In recent periods (including the three months ended September 30, 2022 March 31, 2023), we have benefited from a workers compensation reserve assumed in a 2021 acquisition that was reduced as claims were resolved. The remainder of the associated liability now appears relatively stable and we do not expect benefits in future periods. Generally workers' compensation expense (benefit) will fluctuate based on the mix of classifications, the level of payroll, recent claims resolution and cumulative experience. We cannot accurately predict the effects of workers' compensation, and historical trends are not indicative of future results.

Compensation and Benefits

Compensation-related expenses include wages, payroll taxes, benefits, and stock-based compensation, and continue to be the largest component of operating expenses. Compensation and benefits for the three months ended September 30, 2023 March 31, 2024 was approximately $2.9 million $3.0 million compared to $2.4 $3.6 million for the three months ended September 30, 2022 March 31, 2023, an increase a decrease of 19.5%. The increase was mainly the result of higher employee headcount and related employee salaries and wages, which increased with system-wide sales as 15.7% primarily due to a result of acquisitions and organic growth, particularly the MRINetwork Acquisition. 9.8% reduction in headcount.

Other Selling, General, and Administrative Expenses ("SG&A")

The remaining $676 thousand increase in other Other SG&A expenses was $2.0 million for the three months ended September 30, 2023 is primarily related to additional costs that we expected would incrementally escalate after the MRINetwork and other acquisitions since January 1, 2022. This increase includes advertising and marketing ($76 thousand) March 31, 2024 , IT expenses, licenses, dues ($87 thousand), onboarding and recruiting services ($270 thousand), third party services related to Contract staffing ($169 thousand), and similar expanded costs (insurance, professional fees, etc.). In addition, we increased our reserve a decrease of $67 thousand or 3.2% from $2.1 million for credit losses by approximately $300 thousand during the three months ended September 30, 2023. March 31, 2023 primarily related to decreases in computer expenses and professional fees.

Overall, excluding workers' compensation and depreciation and amortization, and the credit loss reserve, operating expenses increased 34.1% decreased 11.1%, versus a 19.9% increase 16.0% decrease in franchise royalties. This increase (SG&A excluding workers compensation cost and the effect bad debt reserve changes) is primarily associated with costs related to the acquisition of MRINetwork. By the end of the quarter ended September 30, 2023, the incremental costs related to the MRI Network reached what would be expected based upon current revenue volumes under that brand. Because the support of executive recruiting franchises is somewhat different than our traditional staffing franchise offerings, our relative SG&A costs for our staffing operations increased as a percentage of revenues due to the decline in staffing revenues. March 31, 2024

Depreciation and amortization

Depreciation and amortization for the three months ended September 30, 2023 March 31, 2024 was approximately $699 $698 thousand compared to $497 $697 thousand for the three months ended September 30, 2022 March 31, 2023. T he increase of $202 thousand was primarily due to additional amortization stemming from acquisitions. We acquired $5.6 million of franchise agreements and $10.9 million of other intangibles in acquisitions during 2022 (excluding Goodwill). Of the $16.5 million in other intangibles, only $1.4 million are indefinite lived and not amortized. We will continue to incur significant amortization expense in future periods until the underlying intangibles are disposed of, impaired or fully amortized. Future acquisitions are expected to further increase tangible and intangible assets on our balance sheet, and correspondingly increase depreciation and amortization.

Other Income and Expense

Other income and expense consists of interest income on notes receivable, rent received from sub-tenants, and other non-operating income and expense.

Other miscellaneous income and expense

For the three months ended September 30, 2023March 31, 2024 , other miscellaneous income was approximately $117 $37 thousand, compared to other miscellaneous incomeexpense of $99 $43 thousand for the three months ended September 30, 2022March 31, 2023 . The income in the 2023 period represents gross rents from leasing excess *space at our corporate headquarters to a third-party tenant. We leased approximately 6,000 square feet of office space in our headquarters campus to an unaffiliated company. For the three months ended September 30, 2022, we recognized a $150 thousand charge for non-royalty based incentives given to a franchisee during an expansion and acquisition of one of their competitors. This incentive was to help offset integration charges such as signage, branding, marketing, etc. The remaining income in the three-month period ended September 30, 2022 includes gross rents as described above.*

Interest income and expense

Interest income for the three months ended September 30, 2023 March 31, 2024 was approximately $83 $136 thousand compared to $51 $46 thousand for the three months ended September 30, 2022March 31, 2023 . Interest income represents interest related to the financing of franchised locations.

Interest and other financing expense relates primarily to the Revolving Credit and Term Loan Agreement with Truist, and its replacement, the Revolving Credit Agreement with Bank of America, N.A. Interest and other financing expense increased decreased from $99 $540 thousand for the three months ended September 30, 2022 March 31, 2023 to $302 $243 thousand for the three months ended September 30, 2023March 31, 2024 . Interest and other financing expense will fluctuate as we utilize the line of credit for acquisitions or other short-term liquidity needs. Due to the MRINetwork Acquisition in the fourth quarter of 2022, coupled with the subsequent working capital needs, we carried a larger balance on our line of credit for the quarter ended September 30, 2023March 31, 2023 than the quarter ended September 30, 2022March 31, 2024 . The increase decrease in interest expense is consistent both with additional borrowing and the continuing increases decrease in the federal funds rate by the Federal Reserve in its attempt to control inflation. outstanding line of credit balance.

Provision for income tax

Income tax expense was approximately $518 340 thousand for the three months ended September 30, 2023 March 31, 2024. We estimate an annual projected effective tax rate ("ETR") for the year to determine income tax expense or benefit in the interim periods. The estimated annual ETR does not include tax effects from significant unusual or infrequently occurring items. Such items are accounted for discretely during the period in which they occur. The ETR is primarily driven by the federal Work Opportunity Tax Credit ("WOTC"), which is included as part of income tax expense because it can be claimed only on the income tax return and can be realized only through the existence of taxable income. Other significant items affecting our tax rate are windfall tax deductions related to stock-based compensation, and overall limits on executive compensation. Our net ETR for the three months ended September 30, 2023 March 31, 2024 was 24.5% 16.7%.

Income tax expense for the three months ended September 30, 2022 March 31, 2023 was approximately $946 $547 thousand. Our net ETR for the three months ended September 30, 2022 March 31, 2023 was 18.6% 19.1%. The increase in the net ETR is driven by mix of our revenue, particularly the addition of MRINetwork as the increase in executive, managerial and professional recruiting does not generate Work Opportunity Tax Credits at the same levels as staffing services.

Discontinued Operations

Following the acquisition of Dental Power, we used the platform to build a customer base in the dental-oriented sector of the staffing industry, which benefits our entire system by increasing revenue opportunities for all franchises under the HireQuest Health brand. Dental Power has national customers, and we did not have any plans to sell the operations as a single franchise or bifurcate it off into several geographical franchisees. It was not being marketed or otherwise held-for-sale. We operated Dental Power as a company-owned location reflected in continuing operations. As part of the MRINetwork acquisition, their franchise base included a number of natural buyers who were already operating in the dental industry. We immediately began marketing Dental Power for sale to these and any other potential buyers. On March 27, 2023, we completed the sale of the assets we acquired in the Dental Power acquisition to an acquired MRI franchisee, who will continue to operate the business as part of their franchise. All operations of Dental Power while we operated the business have been classified as discontinued operations for all periods presented.

Following our acquisition of Dubin, we divided their operations into separate businesses and sold certain customer related assets of one of the acquired locations to a new franchisee. The remaining assets related to the operations of the other acquired location (in Philadelphia) have not been sold and as of September 30, 2023 March 31, 2024 remain classified as held-for-sale. In the meantime, we operate this Philadelphia location as company-owned, although all operations are presented as part of discontinued operations.

The assets and liabilities of our discontinued operations are presented separately in the asset and liability sections, respectively, of the balance sheet for all periods presented. Similarly, cash flows and the results of operations are also removed from continuing operations in the respective financial statements. In general, assets held-for-sale are not amortized or depreciated, and are measured at the lower of carrying amount or fair value less costs to sell.

Nine Months Ended September 30, 2023 Compared to the Nine Months Ended September 30, 2022

Revenue

Our total revenue consists of franchise royalties and service revenue we receive from our franchises. Revenue would also include staffing revenue with respect to owned locations. Once a company-owned office is sold, disposed of, or otherwise classified as held-for-sale, it would not be reflected in revenue and instead reported as "Income from discontinued operations, net of tax." For a description of our revenue recognition practices, please refer to "Note 1 – Overview and Summary of Significant Accounting Policies – Revenue Recognition," and "Critical Accounting Estimates – Revenue Recognition," which disclosure is incorporated herein by reference. Revenue does not include any owned locations for the nine months ended September 30, 2023 or the nine months ended September 30, 2022.

Total revenue for the nine months ended September 30, 2023 was approximately $28.1 million compared to $22.9 million for the nine months ended September 30, 2022, an increase of 22.8%, even though system-wide sales increased 35.5%. Revenue as a percentage of system-wide sales was 6.1% for the nine months ended September 30, 2023 *versus 6.7% for the nine months ended September 30, 2022. Because MRINetwork focuses on recruitment services, which carry a lower royalty percentage, absolute revenue did not increase at the same pace as system-wide sales. The net revenue rate (as a percentage of system-wide sales) is lower for the same reason.*

Franchise Royalties

Franchise royalties for the nine months ended September 30, 2023 were approximately $26.9 million, an increase of 26.9% from $21.2 million for the nine months ended September 30, 2022. Approximately $5.8 million of this increase was due to the MRINetwork acquisition. Our net effective royalty rate (as a percentage of external system-wide sales) was 5.9% for the nine-month period ended September 30, 2023 compared to 6.2% for the nine months ended September 30, 2022. Our net effective royalty rate will generally fluctuate due to mix of business among the various royalty models under which we operate, as well as incentives we offer during the year. As noted above, the net royalty rate for the MRINetwork is lower due to a larger proportion of recruitment services. A summary of franchise royalties by brand for the nine months ended September 30, 2023 and September 30, 2022 are as follows (in thousands):

	Nine months ended	
	September 30, 2023	September 30, 2022
Franchise royalties from HireQuest Direct	$ 11,780	$ 12,139
Franchise royalties from Snelling and HireQuest	6,973	8,123
Franchise royalties from DriverQuest and TradeCorp	297	49
Franchise royalties from HireQuest Health	381	155
Franchise royalties from Northbound, MRI, and SearchPath	7,489	751
Franchise royalties	$ 26,920	$ 21,217

Northbound royalties in the nine months ended September 30, 2022 only represents activity since the February 28, 2022 acquisition date. Snelling royalties in the nine months ended September 30, 2022 only represents Temporary Alternatives activity since the January 24, 2022 acquisition date and Dubin activity since the February 21, 2022 acquisition date.

Service Revenue

Service revenue consists of interest we charge our franchisees on overdue customer accounts receivable and other miscellaneous fees for optional services we provide. Direct costs to provide certain services are reflected as a reduction in service revenue. As accounts receivable age over 42 days, our franchisees pay us interest on these accounts equal to 0.5% of the amount of the uncollected receivable each 14-day period. All accounts that age beyond 84 days are charged back to the franchisee and no longer incur interest, although some of our franchisees elect to charge back accounts that age over 42 days in order to avoid the interest charge. 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. We have no employees and provide no services at the licensed locations. Service revenue also includes amounts charged for various optional services and cost-sharing arrangements such as bulk vendor programs or IT license blocks. Generally, we do not profit from these arrangements as they represent pass-through items, although there may be timing differences. In addition, there are occasionally classification differences where the cost is embedded in selling, general and administrative expenses.

Service revenue for the nine months ended September 30, 2023 was approximately $1.2 million, a decrease of $479 thousand, or 28.6%, from the nine months ended September 30, 2022, when service revenue was approximately $1.7 million. This decrease was largely due to a high volume of insurance related services that occurred in the nine months ended September 30, 2022.

Included in service revenue is interest income of $659 thousand for the nine months ended September 30, 2023 and $709 thousand for the nine months ended September 30, 2022. Fluctuations in interest generally follow the mix of aged accounts in our accounts receivable, although relatively few age over 42 days and result in service revenue for us. Many of our franchisees have elected to charge back accounts early in order to avoid or reduce the interest charge. Therefore, there will not be a proportionally large increase in service revenue even when there is a large increase in accounts receivable. We pride ourselves on maintaining quality, creditworthy customers who pay timely. We view the imposition of higher interest rates on aged accounts receivable to serve as an incentive for our franchisees to select credit-worthy customers.

Service revenue is expected to fluctuate from quarter-to-quarter.

Operating Expenses

Operating expenses for the nine months ended September 30, 2023 were approximately $19.9 million compared to $9.5 million for the nine months ended September 30, 2022, an increase of 109.5%. The increase primarily relates to workers' compensation, and variable administrative and compensation costs that we inherited as a result of the MRI Network Acquisition and that are described below, as well as additional amortization related to intangibles acquired in that acquisition. Overall, operating expenses represented 4.3% of system-wide-sales in the nine months ended September 30, 2023 versus 2.8% of system-wide sales in the nine months ended September 30, 2022.

Workers' Compensation

Workers' compensation expense was approximately $2.3 million for the nine months ended September 30, 2023, versus a net benefit of approximately $2.1 million for the nine months ended September 30, 2022, an increase of $4.5 million. Our workers' compensation reserves provide benefits following a workplace injury. Benefits are usually statutory in nature and are generally provided in partial or complete replacement of the injured worker's recourse to the liability system. Payments may include medical treatment, rehabilitation, lost wages, and survivor benefits. Workers compensation rating is typically based on job classification, and our workers fall in hundreds of classifications. Annually, we use third-party actuaries to ensure that the overall ratings are sound, that individual insurer rates are adequate, and that individual risks receive a fair rate that reflects both the characteristics of the job classification and the Company's risk experience. The company pays premiums, actual claims, and establishes reserves for future claims. In turn we charge our franchises a percentage of payroll based on as determined by our workers' compensation carrier, plus or minus certain incentives and charges we provide for good or bad workers' compensation claims history. The overall charge is an estimate of the current and fully developed future costs and may not always coincide with the payments we *make, resulting in expense or benefit in a given period. Over the long-term, our workers' compensation expense should equal the amounts we collect from franchisees and essentially just be a pass-through cost. In the short-term, we cannot accurately predict the effects of workers' compensation in specific future periods, and historical trends are not indicative of future results.*

Approximately $365 thousand of the benefit recorded during the nine months ended September 30, 2022 relates to a workers compensation reserve assumed in a 2021 acquisition and resulted in a net benefit as claims were resolved. Generally workers' compensation expense (benefit) will fluctuate based on the mix of classifications, the level of payroll, recent claims resolution and cumulative experience.

Compensation and Benefits

Compensation-related expenses include wages, payroll taxes, benefits, and stock-based compensation, and continue to be the largest component of operating expenses. Compensation and benefits for the nine months ended September 30, 2023 was approximately $9.6 million compared to $6.5 million for the nine months ended September 30, 2022, an increase of 46.4%. The increase was mainly the result of higher employee headcount and related employee salaries and wages, which increased with system-wide sales as a result of acquisitions and organic growth, particularly the MRINetwork Acquisition.

Other Selling, General, and Administrative Expenses ("SG&A")

The remaining $2.3 million increase in other SG&A expenses is related to additional costs that we expected would incrementally escalate after the MRINetwork and other acquisitions since January1, 2022. This increase includes advertising and marketing ($311 thousand), IT expenses, licenses, dues ($665 thousand), recruiting and onboarding ($376 thousand), third party services related to Contract staffing ($604 thousand), and similar expanded costs (insurance, professional fees, etc.). In addition, we increased our reserve for credit losses by approximately $300 thousand during the nine months ended September 30, 2023.

Overall, excluding workers' compensation, depreciation and amortization, and the credit loss reserve, operating expenses increased 53.9%, compared to a 26.9% increase in franchise royalties. This increase (SG&A excluding workers compensation cost and the effect bad debt reserve changes) is primarily associated with costs related to the acquisition of MRINetwork. These costs were particularly higher in the first quarter. By the end of the third quarter, the incremental costs related to the MRI Network reached what would be expected based upon current revenue volumes under that brand. Because the support of executive recruiting franchises is somewhat different than our traditional staffing franchise offerings, our relative SG&A costs for our staffing operations increased as a percentage of revenues due to the decline in staffing revenues experienced since March.

Depreciation and amortization

Depreciation and amortization for the nine months ended September 30, 2023 was approximately $2.1 million compared to $1.5 million for the nine months ended September 30, 2022. T he increase of $578 thousand was primarily due to additional amortization stemming from acquisitions. We acquired $5.6 million of franchise agreements and $10.9 million of other intangibles in acquisitions during 2022 (excluding Goodwill). Of the $16.5 million in other intangibles, only $1.4 million are indefinite lived and not amortized. We will continue to incur significant amortization expense in future periods until the underlying intangibles are disposed of, impaired or fully amortized. Future acquisitions are expected to further increase tangible and intangible assets on our balance sheet, and correspondingly increase depreciation and amortization.

Other Income and Expense

Other income and expense consists of interest income on notes receivable, rent received from sub-tenants, and other non-operating income and expense.

Other miscellaneous income and expense

For the nine months ended September 30, 2023, other miscellaneous income was approximately $259 thousand, compared to other miscellaneous expense of $2.0 million for the nine months ended September 30, 2022. The income in the 2023 period primarily represents gross rents from leasing excess space at our corporate headquarters to two third-party tenants. We leased approximately 9,000 square feet of office space in our headquarters campus these unaffiliated companies. In March 2023, one of the two tenants did not renew their lease and we occupied the space they were using. The remaining 6,000 square feet continues to be leased at the market rate. For the nine months ended September 30, 2022, we recognized approximately $2.2 million in losses resulting from the conversion of the Temporary Alternatives, Dubin and Northbound acquisitions to franchises. A portion of the Dubin assets acquired have not been converted to a franchise yet. These assets meet the held-for-sale criteria, and are presented on the balance sheet at the lower of cost or fair value less cost to sell. The operating results from this portion of the Dubin assets are reported as "Income from discontinued operations, net of tax". The remaining income in the three-month period ended September 30, 2022 includes gross rents as described above.

Interest income and expense

Interest income for the nine months ended September 30, 2023 was approximately $197 thousand compared to $198 thousand for the nine months ended September 30, 2022. Interest income represents interest related to the financing of franchised locations. Also in 2022, we recognized $41 thousand in interest income from notes receivable from non-franchisees that we did not receive in 2023.

Interest and other financing expense relates primarily to the Revolving Credit and Term Loan Agreement with Truist, and its replacement, the Revolving Credit Agreement with Bank of America, N.A. Interest and other financing expense increased from $256 thousand for the nine months ended September 30, 2022 to $1.2 million for the nine months ended September 30, 2023. Included in financing expense for the nine months ended September 30, 2023 is a $318 thousand loss on debt extinguishment related to prior debt issuance costs from the Truist Revolving Credit and Term Loan Agreement. Interest and other financing expense will fluctuate as we utilize the line of credit for acquisitions or other short-term liquidity needs. Due to the MRINetwork Acquisition in the fourth quarter of 2022, coupled with the subsequent working capital needs, we carried a larger balance on our line of credit for most of the nine months ended September 30, 2023. The increase in interest expense (excluding the loss on debt extinguishment) is consistent both with additional borrowing and the continuing increases in the federal funds rate by the Federal Reserve in its attempt to control inflation.

Provision for income tax

Income tax expense was approximately $1.5 million for the nine months ended September 30, 2023. We estimate an annual projected effective tax rate ("ETR") for the year to determine income tax expense or benefit in the interim periods. The estimated annual ETR does not include tax effects from significant unusual or infrequently occurring items. Such items are accounted for discretely during the period in which they occur. The ETR is primarily driven by the federal Work Opportunity Tax Credit ("WOTC"), which is included as part of income tax expense because it can be claimed only on the income tax return and can be realized only through the existence of taxable income. Other significant items affecting our tax rate are windfall tax deductions related to stock-based compensation, and overall limits on executive compensation. Our net ETR for the nine months ended September 30, 2023 was 20.4%.

Income tax expense for the nine months ended September 30, 2022 was approximately $1.9 million. Our net ETR for the nine months ended September 30, 2022 was 16.5%. The increase in the net ETR is driven by mix of our revenue, particularly the addition of MRINetwork as the increase in executive, managerial and professional recruiting does not generate Work Opportunity Tax Credits like staffing services do.

Discontinued Operations

Following the acquisition of Dental Power, we used the platform to build a customer base in the dental-oriented sector of the staffing industry, which benefits our entire system by increasing revenue opportunities for all franchises under the HireQuest Health brand. Dental Power has national customers, and we did not have any plans to sell the operations as a single franchise or bifurcate it off into several geographical franchisees. It was not being marketed or otherwise held-for-sale. We operated Dental Power as a company-owned location reflected in continuing operations. As part of the MRINetwork acquisition, their franchise base included a number of natural buyers who were already operating in the dental industry. We immediately began marketing Dental Power for sale to these and any other potential buyers. On March 1, 2023, we agreed to sell the assets we acquired in the Dental Power acquisition to an acquired MRI franchisee, who will continue to operate the business as part of their franchise. All operations of Dental Power have been classified as discontinued operations for all periods presented.

Following our acquisition of Dubin, we divided the operations into separate businesses and sold certain customer related assets of one of the acquired locations to a new franchisee. The remaining assets related to the operations of the other acquired location (in Philadelphia) have not been sold and as of June 30, 2023 remain classified as held-for-sale. In the meantime, we operate this Philadelphia location as company-owned, although all operations are presented as part of discontinued operations.

The assets and liabilities of our discontinued operations are presented separately in the asset and liability sections, respectively, of the balance sheet for all periods presented. Similarly, cash flows and the results of operations are also removed from continuing operations in the respective financial statements. In general, assets held-for-sale are not amortized or depreciated, and are measured at the lower of carrying amount or fair value less costs to sell.

In the nine months ended September 30, 2023, we recognized a gain on the sale of the Dental Power business of approximately $196 thousand. This gain is included in the "Income from discontinued operations, net of tax" section of the Consolidated Statements of Income.

Liquidity and Capital Resources

Overview

Our major source of liquidity and capital is cash generated from our ongoing operations consisting of royalty revenue, service revenue and staffing revenue from owned locations (including discontinued operations), and service revenue. franchisee-owned locations. We also receive principal and interest payments on notes receivable that we issued in connection with the conversion of company-owned or acquired offices to franchised offices. We also receive cash when we convert acquired operations and assets into franchises, although sometimes we finance those transactions in whole or in part. In addition, we have the capacity to borrow under our line of credit with Bank of America N.A.(see "Revolving Credit Agreement with Bank of America" below).

At September 30, 2023 March 31, 2024, our current assets exceeded our current liabilities by approximately $19.1 million $18.0 million. Our current assets included approximately $1.1 million $1.6 million of cash and $50.2 million $47.7 million of net accounts receivable, which our franchisees have billed to customers and which we own in accordance with our franchise agreements. Our largest current liabilities as of September 30, 2023 March 31, 2024 included approximately $11.0 million $10.1 million due to our franchisees on pending settlement statements, $3.2 million $3.8 million related to our workers' compensation claims liability, and $14.4 million $16.1 million of borrowings under our line of credit.

Our working capital requirements are driven largely by temporary employee payroll, which is typically daily or weekly, and weekly cash settlements with our franchises. Since collections from accounts receivable lag employee pay our working capital requirements increase as system-wide sales increase, and vice-versa. When the economy contracts, our cash balance tends to increase in the short-term as payroll funding requirements decrease and aged accounts receivable are converted to cash upon collection. As the economy recovers, our cash balance generally decreases and accounts receivable increase.

We believe that our current cash balance, together with the future cash generated from operations, principal and interest payments on notes receivable, and our borrowing capacity under our line of credit, will be sufficient to satisfy our working capital needs, capital asset purchases, future dividends (if any), and other liquidity requirements associated with our continuing operations for the next 12 months. We also believe that these sources of liquidity and capital will be sufficient to satisfy our liquidity requirements associated with our continuing operations beyond the next 12 months.

Our access to, and the availability of, financing on acceptable terms in the future will be affected by many factors including overall liquidity in the capital or credit markets, the state of the economy and our credit strength as viewed by potential lenders. We cannot provide assurances that we will have future access to the capital or credit markets on acceptable terms. We expect our borrowing costs to continue to increase as the Federal Reserve raises its benchmark interest rates in an effort to control inflation.

Operating Activities

During the nine three months ended September 30, 2023 March 31, 2024, cash provided used by continuing operating activities was approximately $1.8 million $0.9 million and included net income from continuing operations of approximately $6.0 million $1.6 million, adjusted by non-cash items (primarily depreciation, stock-based compensation, and amortization and deferred taxes)) of approximately $3.8 $1.2 million. These provisions were offset by changes in operating assets and liabilities requiring cash of approximately $7.9 $3.8 million, including an increase in accounts receivable of $4.4 million $3.4 million. During the nine three months ended September 30, 2022 March 31, 2023, cash generated by operating activities was approximately $11.3 million $0.4 million and included net income from continuing operations of approximately $9.5 million $2.6 million, adjusted by non-cash items of approximately $5.7 million, including a net loss on the sale of intangible assets acquired of approximately $2.2 million. $1.5 million. These provisions were partially offset by changes in operating assets and liabilities requiring cash of approximately $4.4 million $3.4 million.

Investing Activities

During the nine three months ended September 30, 2023 March 31, 2024, cash generated by investing activities was approximately $310 $213 thousand, primarily from payments on notes receivable. During the nine three months ended September 30, 2022 March 31, 2023, cash used by investing activities was approximately $10.1 million and included cash paid for acquisitions of approximately $19.1 million. This use was offset by proceeds from the sale of purchased locations of approximately $9.3 million. $37 thousand.

Financing Activities

During the nine three months ended September 30, 2023 March 31, 2024, cash used provided by financing activities was approximately $4.0 $1.0 million and included net proceeds from our revolving line of credit of approximately $1.9 $2.0 million. These proceeds were offset by approximately $2.5 million $0.8 million in dividends and a payoff of our term loan of dividends. $3.3 million. During 2022, 2023, cash provided by financing activities was approximately $882 thousand $4.7 million and included net proceeds from our revolving line of credit of approximately $2.0 $8.7 million offset by the payment of dividends totaling approximately $2.5 million $0.8 million and net payments on our term loan of approximately $438 thousand. $2.9 million.

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

On February 28, 2023 the Company and all of its subsidiaries as borrowers (collectively, the "Borrowers") entered into a Revolving Credit Agreement with Bank of America, N.A. (the "Bank") for a $50,000,000 revolving facility (the "Senior Credit Facility"), which includes a $20,000,000 sublimit for the issuance of standby letters of credit. The Company also has a one-time right, upon at least ten business days' prior written notice to the Bank to increase the maximum amount of the Senior Credit Facility to $60 million. 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 related credit agreement (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 (described below), (ii) second, to pay off its existing term loan with Truist (described below), 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.

At September 30, 2023 March 31, 2024, availability under the Senior Credit Facility was approximately $25.9 $24.2 million based on eligible collateral, less letter of credit reserves, bank product reserves, and current advances, assuming continued covenant compliance. Our all-in-rate of borrowing was 6.6% and is repriced daily. On October 23, 2023, we entered into an agreement to acquire certain assets of TEC Staffing Services, Inc. ("TEC") for approximately $9.8 million. The offices will be converted to On December 4, 2023 the Snelling franchise model and offered to prospective buyers as franchises. We will finance this acquisition with our Senior Credit Facility, and expect to recover the proceeds through the subsequent franchising of operations and royalties from future operations.

Revolving Credit and Term Loan Agreement with Truist Bank

On June 29, 2021 the Borrowers entered into a Revolving Credit and Term Loan Agreement with Truist Bank, as Administrative Agent, and the lenders from time to time made a party thereto (the "Truist Credit Agreement"), pursuant to which the lenders extended the Borrowers (i) a $60 million revolving line of credit with a $20 million sublimit for letters of credit (the "Truist Line of Credit") and (ii) a $3,153,500 term loan (the "Truist Term Loan"). Under the agreement, Truist Bank could also make Swingline Loans available in its discretion. The Truist Credit Agreement replaced the Company's prior $30 million credit facility with BB&T, now Truist. The Truist Credit Agreement provided for a borrowing base Company closed on the Truist Line acquisition of Credit that was derived from the Borrowers' accounts receivable subject to certain reserves and other limitations. Interest accrued on the outstanding balance assets of the Truist Line of Credit at a variable rate equal to (a) the LIBOR Index Rate plus a margin between 1.25% and 1.75% per annum or (b) the then applicable Base Rate, as that term was defined in the Truist Credit Agreement plus a margin between 0.25% and 0.75% per annum. In each case, the applicable margin was determined by the Company's Average Excess Availability on the Truist Line of Credit, as defined in the Truist Credit Agreement. Interest accrued on the Truist Term Loan at a variable rate equal to (a) the LIBOR Index Rate plus 2.0% per annum or (b) the then applicable Base Rate plus 1.0% per annum. In addition to interest on outstanding principal under the Truist Credit Agreement, the Borrowers paid a commitment fee on the unused portion of the Truist Line of Credit in an amount equal to 0.25% per annum. All loans made pursuant to the Truist Line of Credit were to mature on June 29, 2026. The Truist Term Loan was due to be paid in equal monthly installments based upon a 15-year amortization of the original principal amount of the Truist Term Loan and was payable in monthly installments with the remaining principal balance due and payable in full on the earlier of the date of termination of the commitments on the Truist Line of Credit and June 29, 2036.

TEC. The Company utilized the proceeds of the Truist Term Loan (i) first sold these assets for $7.6 million to pay off its prior credit facility, and (ii) second, to pay transaction fees and expenses incurred in connection with closing certain acquisitions. buyers who will operate as Snelling franchises.

Economy and Inflation

Many leading economists predict high rates of inflation will continue through 2023. 2024. We do not believe inflation has had a material effect on our Company's results of operations as inflation generally results in higher rates per hour that can offset any slowdown in organic growth opportunities. This might not be the case if inflation continues to grow. A prolonged period of high inflation may also impact our ability to carry out our acquisition strategy. On the other hand, if business conditions deteriorate, it may be easier for us to identify an acquisition candidate.

The February 2022 Russian invasion of Ukraine and the resulting economic sanctions imposed by the United States and other countries, along with certain international organizations, have significantly impacted the global economy, including exacerbating inflationary pressures created by COVID-related supply chain disruptions, and given rise to potential global security issues that have adversely affected and may continue to adversely affect international business and economic conditions. The ongoing effects of the hostilities and sanctions are no longer limited to Russia and Russian companies and have spilled over to and negatively impacted other regional and global economic markets.

In October 2023, the Palestinian militant group Hamas launched an unprecedented assault on Israel, who in turn formally declared war as its soldiers battled Hamas fighters and launched airstrikes on Gaza. This war between Israel and Hamas could spur inflation and hamper global growth if it turns into a wider conflict that causes a significant increase in oil prices.

Global conflicts such as these have resulted in rising energy prices and an even more constrained supply chain, and thus aggravated the inflationary global environment with cost increases affecting labor, fuel, materials food and services. At this time, the ultimate extent of the duration of the military actions, resulting sanctions and future economic and market disruptions, and resulting effects on the Company, and on our acquisition strategy, are impossible to predict.

Key Performance Indicator: System-Wide Sales

We refer to total sales generated by our franchisees as "franchise sales." For any period prior to their conversion to franchises, we refer to sales at company-owned and operated offices as "company-owned sales." In turn, we refer to the sum of franchise sales and company-owned sales as "system-wide sales." In other words, system-wide sales include sales at all offices, whether owned and operated by us or by our franchisees. In addition, system-wide sales includes sales at company-owned offices that are classified as discontinued operations. System-wide sales is a key performance indicator, although we do not record system-wide sales as revenue. Management believes that information on system-wide sales is important to understanding our financial performance because those sales are the basis on which we calculate and record much of our franchise royalty revenue, are directly related to all other royalty revenue and service revenue and are indicative of the financial health of our franchisee base. Management uses system-wide sales to benchmark current operating levels to historic operating levels. System-wide sales should not be considered as an alternative to revenue.

At nine three months ended September 30, 2023 March 31, 2024, nearly all of our offices were franchised with the only exceptions being a portion of the Dubin operations acquired in the first quarter of 2022. The following table reflects our system-wide sales broken into its components for the periods indicated. The Dubin operations are presented in the consolidated financial statements as discontinued operations because they are considered held-for-sale, but their system-wide sales are reflected along with all other offices in the table below. Percentages indicate the change in system-wide sales relative to the comparable prior period (in thousands, except percentages):

	Three months ended			Nine months ended		
	September 30, 2023	September 30, 2022	Change	September 30, 2023	September 30, 2022	Change
System-wide sales from HireQuest Direct	$ 65,572	$ 69,322	(5.4)%	$ 186,515	$ 190,903	(2.3)%
System-wide sales from Snelling and HireQuest	37,801	45,662	(17.2)%	121,555	132,782	(8.5)%
System-wide sales from DriverQuest and TradeCorp	1,237	539	129.5 %	3,248	2,142	51.6 %
System-wide sales from HireQuest Health	1,922	1,831	5.0 %	4,921	4,289	14.7 %
System-wide sales from Northbound, MRI, and SearchPath	44,466	4,090	987.2 %	143,764	9,423	1425.7 %
System-wide sales from Discontinued Operations	209	1,801	(88.4)%	1,688	4,772	(64.6)%
System-wide sales	$ 151,207	$ 123,245	22.7 %	$ 461,691	$ 344,311	34.1 %

The addition of MRINetwork accounted for $39.3 million of the increase in system-wide sales during the three months ended September 30, 2023, as sales from pre-existing locations decreased approximately $10.5 million. The addition of MRINetwork accounted for $129.1 million of the increase in system-wide sales during the nine months ended September 30, 2023, as sales from pre-existing locations decreased approximately $14.0 million.

Of the $117.4 million increase in system-wide sales in the nine months ended September 30, 2023, $2.3 million relates to the Northbound, Temporary Alternatives and Dubin acquisitions.

Northbound system-wide sales in the nine months ended September 30, 2022 only represents activity since the February 28, 2022 acquisition date. Snelling system-wide sales only represents Temporary Alternatives activity since the January 24, 2022 acquisition date, and Dubin system-wide sales since the February 21, 2022 acquisition date.

	Three months ended		
	March 31, 2024	March 31, 2023	Change
System-wide sales from HireQuest Direct	$ 54,333	$ 58,777	(7.6)%
System-wide sales from Snelling and HireQuest	36,559	41,844	(12.6)%
System-wide sales from DriverQuest and TradeCorp	2,969	682	335.3%
System-wide sales from HireQuest Health	1,728	898	92.4%
System-wide sales from Northbound, MRI, and SearchPath	38,350	50,062	(23.4)%
System-wide sales from Discontinued Operations	96	1,255	(92.4)%
System-wide sales	$ 134,035	$ 153,518	(12.7)%

Number of Offices

We examine the number of offices we open and close every period. The number of offices is directly tied to the amount of royalty and service revenue we earn. We count a location as an office if it has a physical location and is generating revenue.

The following table accounts for the number of offices opened and closed or consolidated during the nine three month ended September 30, 2023 March 31, 2024:

Offices, December 31, 2021	217
Purchased in 2022 (net of sold locations)	207
Opened in 2022	16
Closed in 2022	(5)
Offices, December 31, 2022	435
Opened in 2023	14
Purchased in 2023	7
Closed in 2023	(16 29)
Offices, September 30, 2023 December 31, 2023	426 427
Opened in 2024	6
Closed in 2024	(5)
Offices, March 31, 2024	428

Critical Accounting Estimates

See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2022.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are a "smaller reporting company" as defined by Rule 12b-2 of the Exchange Act, and, as such, are not required to provide the information required by this Item.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, management concluded that these disclosure controls and procedures were not effective as of the end of such period as a result of the material weakness disclosed below.

As previously reported, we identified a material weakness in our internal control over financial reporting as we did not have sufficient accounting resources available to handle the volume of technical accounting issues and provide adequate review functions. A material weakness is a deficiency or combination of deficiencies in internal control over financial *reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.*

Notwithstanding the material weakness, which still existed as of September 30, 2023 March 31, 2024 , the Company's management, including its Chief Executive Officer and Chief Financial Officer, have concluded that the consolidated financial statements included in this Quarterly Report present fairly, in all material respects, our financial position, results of operations and cash flows as of the dates, and for the periods presented, in conformity with accounting principles generally accepted in the United States.

Management Plans to Remediate Material Weakness

On December 1, 2021 we hired David S. Burnett as CFO. We believe that Beginning with our quarterly report on Form 10-Q for the addition of Mr. Burnett materially strengthened quarter ended March 31, 2021 the Company reported a material weakness in our internal control over financial reporting. reporting as we did not have sufficient accounting resources available to handle the volume of technical accounting issues and provide adequate review functions in connection with the integration of acquisitions. As part of the remediation, the Company has engaged third party professionals with appropriate technical expertise for subsequent acquisitions. Also, in order to give the Chief Accounting Officer ("CAO") more time to do an appropriate review as and when required, the Company has transitioned the CAO's responsibility over the Finance Operations Group which processes and reconciles daily transactions to another leader in the organization. In addition, the Company has created a remediation plan, performed additional compensating control procedures during the six acquisitions that have occurred since the material weakness, tested those controls, and developed a new formal set of controls to follow going forward that directly address the risks in that area. Management continues to take action to remediate the material weakness in internal control over financial reporting, including hiring is actively recruiting for additional staff in the accounting department with appropriate professional experience and engaging third party professionals in November 2024, hired a Chief Financial Officer ("CFO") who has 17 years of experience as a public company CFO and 5 years of experience as a public company director including as Audit Committee Chair. Lastly, the Company is working through the accounting processes currently the responsibility of the CAO with the appropriate technical expertise. goal of (1) making the processes more efficient and (2) transitioning work from the CAO to other appropriately experienced accounting staff.

We are committed to maintaining a strong internal control environment and implementing measures designed to help ensure that control deficiencies contributing to the material weakness are remediated as soon as possible. We believe we have made significant progress towards remediation and continue to implement our remediation plan for the material weakness in internal control over financial reporting described above. We will consider the material weakness remediated after the applicable controls operate for a sufficient period of time, and management has concluded, through testing, that the controls are operating effectively.

Changes in internal control over financial reporting

During the quarter ended September 30, 2023 March 31, 2024, there were no significant changes in our internal control over financial reporting, other than those referred to above, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. 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 outcomes of these proceedings, even if determined adversely, will not have a material adverse effect on our business, financial condition, results of operations, or liquidity and capital resources.

Item 1A. Risk Factors

Our business, financial condition, and operating results can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below and in Part I, Item 1A of our most recent annual report on Form 10-K which we filed with the SEC on March 21, 2023 under the heading "Risk Factors," any one or more of which could, directly or indirectly, cause our actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, operating results, and stock price. Except as set forth below, there There have been no material changes to from the risk factors included we previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021, December 31, 2023 filed with the SEC Securities and Exchange Commission on March 21, 2023 March 21, 2024.

Our results of operations could be adversely affected by economic and political conditions globally and the effects of these conditions on our and our franchisees' customers' businesses and levels of business activity.

The Russian invasion of Ukraine and the resulting economic sanctions imposed by the United States and other countries, along with certain international organizations, have significantly impacted the global economy, including by exacerbating inflationary pressures created by COVID-related supply chain disruptions, and given rise to potential global security issues that have adversely affected and may continue to adversely affect international business and economic conditions. In addition, the threat of a wider war in the Middle East after the Hamas terrorist attacks on Israel could affect oil prices and have other effects on the global economy. Although we have no operations in Russia or Ukraine or in the Middle East, certain of our or our franchisees' customers may have been or may in the future be impacted by these events. The ongoing effects of the hostilities and sanctions are no longer limited to companies from such regions and have spilled over to and negatively impacted other regional and global economic markets.

The conflicts have resulted in rising energy prices and an even more constrained supply chain, and thus exacerbated the inflationary global economic environment, with cost increases affecting labor, fuel, materials, food and services. If these impacts continue to affect us and/or our clients, particularly in the industrial/manufacturing and construction sectors, demand for our labor may decrease, which would decrease gross billings and therefore our royalty revenue. Furthermore, sustained increases in the consumer price index has and will likely continue to put upward pressure on wages. If we are unable to match or exceed wages offered by other potential employers to our temporary employees, we may suffer from employee attrition. At this time, the ultimate extent and duration of the military action, resulting sanctions and future economic and market disruptions, and resulting effects on the Company, are impossible to predict.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 5. Other Information

None.None.

Item 6. Exhibits

Exhibit No.	*Description*
10.1	*Employment Agreement effective September 1, 2023 by and among HQ LTS Corporation, HireQuest, Inc., and John McAnnar (incorporated by reference to the Company's Current Report on Form 8-K, filed with the SEC on September 1, 2023)*
31.1	*Certification of Richard Hermanns, Chief Executive Officer of HireQuest, Inc. pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)*
31.2	*Certification of David S. Burnett, Steve Crane, Chief Financial Officer of HireQuest, Inc. pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)*
32.1	*Certification of Richard Hermanns, Chief Executive Officer of HireQuest, Inc., and David S. Burnett, Steve Crane, Chief Financial Officer of HireQuest, Inc., pursuant to 18 U.S.C. Section 1350, as adopted in Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)*
101.INS	*Inline XBRL Instance Document (filed herewith)*
101.SCH	*Inline XBRL Taxonomy Extension Schema Document (filed herewith)*
101.CAL	*Inline XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)*
101.DEF	*Inline XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)*
101.LAB	*Inline XBRL Taxonomy Extension Label Linkbase Document (filed herewith)*
101.PRE	*Inline XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)*
104	*Cover Page Interactive Data File (embedded within the Inline XBRL and contained in Exhibit 101)*

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, hereunto duly authorized.

/s/ Richard Hermanns	*November 8May 9, 2024, 2023*
Richard Hermanns	*Date*
President and Chief Executive Officer	
/s/ David S. BurnettSteve Crane	*November 8May 9, 2024, 2023*
David S. BurnettSteve Crane	*Date*
Chief Financial Officer	

EXHIBIT 31.1

CERTIFICATION

I, Richard Hermanns, President and Chief Executive Officer, certify that:

1) *I have reviewed this Quarterly Report on Form 10-Q of HireQuest, Inc.*

2) *Based on my knowledge, this report does not contain any untrue statement of a material fact nor omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;*

3) *Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this quarterly report;*

4) *The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15(e)) for the registrant and we have:*

   a) *Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared.*

   b) *Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.*

   c) *Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation.*

   d) *Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's second fiscal quarter in the case of this quarterly report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.*

5) *The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):*

   a) *All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information.*

   b) *Any fraud, whether material or not, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.*

Dated: November 8, 2023 May 9, 2024

/s/ Richard Hermanns

Richard Hermanns

President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, David S. Burnett, Steeve Crane, Chief Financial Officer, certify that:

1) *I have reviewed this Quarterly Report on Form 10-Q of HireQuest, Inc.*

2) *Based on my knowledge, this report does not contain any untrue statement of a material fact nor omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;*

3) *Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this quarterly report;*

4) *The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15(e)) for the registrant and we have:*

   a) *Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared.*

   b) *Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.*

   c) *Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation.*

   d) *Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's second fiscal quarter in the case of this quarterly report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.*

5) *The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):*

   a) *All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information.*

   b) *Any fraud, whether material or not, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.*

Dated: November 8, 2023 May 9, 2024

/s/ David S. Burnett Steve Crane

David S. Burnett Steve Crane

Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

We, Richard Hermanns, the President and Chief Executive Officer of HireQuest, Inc., or the Company, and David S. Burnett, Steve Crane, the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1) *The Quarterly Report of the Company on Form 10-Q, for the fiscal period ended September 30, 2023 March 31, 2024, or the Report, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934.*

2) *The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods covered by the Report.*

Dated: November 8, 2023 May 9, 2024

/s/ Richard Hermanns	*/s/ David S. Burnett Steve Crane*
Richard Hermanns	*David S. Burnett Steve Crane*
President and Chief Executive Officer	*Chief Financial Officer*

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