

HEALTHCARE SERVICES GROUP INC

Form 10-Q

April 25, 2011

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q**

(MARK ONE)

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from _____ to _____

**Commission File Number 0-12015
HEALTHCARE SERVICES GROUP, INC.
(Exact name of registrant as specified in its charter)**

Pennsylvania

23-2018365

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification number)

3220 Tillman Drive-Suite 300, Bensalem, Pennsylvania

19020

(Address of principal executive office)

(Zip code)

Registrant's telephone number, including area code: 215-639-4274

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company as defined in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock, \$.01 Par Value: 66,375,000 shares outstanding as of April 22, 2011.

INDEX

| | PAGE NO. |
|--|-----------------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| <u>Item 1. Financial Statements (Unaudited)</u> | |
| <u>Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010</u> | 2 |
| <u>Consolidated Statements of Income for the Three Months Ended March 31, 2011 and 2010</u> | 3 |
| <u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2010</u> | 4 |
| <u>Consolidated Statement of Stockholders' Equity and Comprehensive Income for the Three Months Ended March 31, 2011</u> | 5 |
| <u>Notes To Consolidated Financial Statements</u> | 6 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results Of Operations</u> | 16 |
| <u>Item 3. Quantitative and Qualitative Disclosure About Market Risk</u> | 26 |
| <u>Item 4. Controls and Procedures</u> | 26 |
| <u>Part II. OTHER INFORMATION</u> | 27 |
| <u>Item 1. Legal Proceedings</u> | 27 |
| <u>Item 1A. Risk Factors</u> | 27 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 27 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 27 |
| <u>Item 4. (Removed and Reserved)</u> | 27 |
| <u>Item 5. Other Information</u> | 27 |
| <u>Item 6. Exhibits</u> | 27 |
| <u>Signatures</u> | 28 |
| <u>Exhibit 31.1</u> | |
| <u>Exhibit 31.2</u> | |
| <u>Exhibit 32.1</u> | |
| <u>Exhibit 32.2</u> | |
| <u>EX-101 INSTANCE DOCUMENT</u> | |
| <u>EX-101 SCHEMA DOCUMENT</u> | |
| <u>EX-101 CALCULATION LINKBASE DOCUMENT</u> | |
| <u>EX-101 LABELS LINKBASE DOCUMENT</u> | |

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

Table of Contents**Consolidated Balance Sheets**

| | (Unaudited) | |
|--|-----------------------|-----------------------|
| | March 31, 2011 | December 31, 2010 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 36,692,000 | \$ 39,692,000 |
| Marketable securities, at fair value | 41,199,000 | 43,437,000 |
| Accounts and notes receivable, less allowance for doubtful accounts of \$4,008,000 in 2011 and \$4,069,000 in 2010 | 111,364,000 | 108,426,000 |
| Inventories and supplies | 20,844,000 | 20,614,000 |
| Prepaid income taxes | | 3,978,000 |
| Prepaid expenses and other | 6,525,000 | 5,628,000 |
| Total current assets | 216,624,000 | 221,775,000 |
| Property and equipment: | | |
| Laundry and linen equipment installations | 1,935,000 | 1,886,000 |
| Housekeeping equipment and office furniture | 21,227,000 | 20,111,000 |
| Autos and trucks | 299,000 | 284,000 |
| | 23,461,000 | 22,281,000 |
| Less accumulated depreciation | 15,869,000 | 15,625,000 |
| | 7,592,000 | 6,656,000 |
| GOODWILL | 16,955,000 | 16,955,000 |
| OTHER INTANGIBLE ASSETS , less accumulated amortization of \$6,406,000 in 2011 and \$5,938,000 in 2010 | 6,794,000 | 7,262,000 |
| NOTES RECEIVABLE long term portion, net of discount | 4,931,000 | 5,055,000 |
| DEFERRED COMPENSATION FUNDING , at fair value | 12,948,000 | 12,080,000 |
| DEFERRED INCOME TAXES long term portion | 8,425,000 | 8,109,000 |
| OTHER NONCURRENT ASSETS | 42,000 | 42,000 |
| TOTAL ASSETS | \$ 274,311,000 | \$ 277,934,000 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 12,029,000 | \$ 11,434,000 |
| Accrued payroll, accrued and withheld payroll taxes | 14,122,000 | 21,429,000 |
| Other accrued expenses | 1,487,000 | 1,988,000 |
| Income taxes payable | 680,000 | |
| Deferred income taxes | 501,000 | 604,000 |
| Accrued insurance claims | 5,634,000 | 5,076,000 |
| Total current liabilities | 34,453,000 | 40,531,000 |
| ACCRUED INSURANCE CLAIMS long term portion | 13,147,000 | 11,845,000 |
| DEFERRED COMPENSATION LIABILITY | 13,094,000 | 12,479,000 |
| COMMITMENTS AND CONTINGENCIES | | |

STOCKHOLDERS EQUITY:

| | | |
|---|-----------------------|-----------------------|
| Common stock, \$.01 par value; 100,000,000 shares authorized; 69,369,000 shares issued in 2011 and 69,315,000 shares in 2010 | 694,000 | 693,000 |
| Additional paid-in capital | 102,416,000 | 100,138,000 |
| Retained earnings | 128,358,000 | 130,993,000 |
| Accumulated other comprehensive income (loss), net of taxes | 12,000 | (78,000) |
| Common stock in treasury, at cost, 3,003,000 shares in 2011 and 3,139,000 shares in 2010 | (17,863,000) | (18,667,000) |
| Total stockholders equity | 213,617,000 | 213,079,000 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 274,311,000 | \$ 277,934,000 |

See accompanying notes

Table of Contents**Consolidated Statements of Income
(Unaudited)**

| | For the Three Months Ended March 31, | |
|---|---|----------------|
| | 2011 | 2010 |
| Revenues | \$ 208,390,000 | \$ 183,801,000 |
| Operating costs and expenses: | | |
| Costs of services provided | 179,985,000 | 158,573,000 |
| Selling, general and administrative | 16,780,000 | 13,901,000 |
| Other income: | | |
| Investment and interest | 714,000 | 750,000 |
| | | |
| Income before income taxes | 12,339,000 | 12,077,000 |
| Income taxes | 4,572,000 | 4,649,000 |
| | | |
| Net income | \$ 7,767,000 | \$ 7,428,000 |
| | | |
| Basic earnings per common share | \$ 0.12 | \$ 0.11 |
| | | |
| Diluted earnings per common share | \$ 0.12 | \$ 0.11 |
| | | |
| Cash dividends per common share | \$ 0.16 | \$ 0.14 |
| | | |
| Weighted average number of common shares outstanding | | |
| Basic | 66,401,000 | 65,849,000 |
| | | |
| Diluted | 67,454,000 | 66,989,000 |

See accompanying notes

Table of Contents**Consolidated Statements of Cash Flows**

| | (Unaudited) | |
|---|-----------------------------------|--------------|
| | For the Three Months Ended | |
| | March 31, | |
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net income | \$ 7,767,000 | \$ 7,428,000 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 1,004,000 | 923,000 |
| Bad debt provision | 1,160,000 | 600,000 |
| Deferred income tax benefits | (419,000) | (850,000) |
| Share-based compensation expense | 560,000 | 264,000 |
| Amortization of premium on marketable securities | 232,000 | 230,000 |
| Unrealized gain on marketable securities | 145,000 | 597,000 |
| Unrealized (gain) on deferred compensation fund investments | (429,000) | (394,000) |
| Changes in operating assets and liabilities: | | |
| Accounts and notes receivable | (4,099,000) | (1,310,000) |
| Prepaid income taxes | 4,659,000 | |
| Inventories and supplies | (230,000) | (481,000) |
| Notes receivable – long term portion | 124,000 | (457,000) |
| Deferred compensation funding | (439,000) | (375,000) |
| Accounts payable and other accrued expenses | 319,000 | (1,169,000) |
| Accrued payroll, accrued and withheld payroll taxes | (6,391,000) | (10,619,000) |
| Accrued insurance claims | 1,860,000 | 1,057,000 |
| Deferred compensation liability | 1,016,000 | 898,000 |
| Income taxes payable | | 689,000 |
| Prepaid expenses and other assets | (897,000) | 708,000 |
| Net cash provided by (used in) operating activities | 5,942,000 | (2,261,000) |
| Cash flows from investing activities: | | |
| Disposals of fixed assets | 15,000 | 6,000 |
| Additions to property and equipment | (1,488,000) | (614,000) |
| Purchases of marketable securities, net | (4,708,000) | (14,623,000) |
| Sales of marketable securities, net | 6,658,000 | 22,481,000 |
| Net cash provided by investing activities | 477,000 | 7,250,000 |
| Cash flows from financing activities: | | |
| Dividends paid | (10,402,000) | (9,225,000) |
| Reissuance of treasury stock pursuant to Dividend Reinvestment Plan | 35,000 | 27,000 |
| Tax benefits transactions in equity compensation plans | 27,000 | 708,000 |
| Proceeds from the exercise of stock options | 921,000 | 848,000 |
| Net cash used in financing activities | (9,419,000) | (7,642,000) |

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| | | |
|--|---------------|---------------|
| Net decrease in cash and cash equivalents | (3,000,000) | (2,653,000) |
| Cash and cash equivalents at beginning of the period | 39,692,000 | 31,301,000 |
| Cash and cash equivalents at end of the period | \$ 36,692,000 | \$ 28,648,000 |
| Supplementary Cash Flow Information: | | |
| Income taxes cash payments, net of refunds | \$ 311,000 | \$ 4,103,000 |
| Issuance of 76,000 and 73,000 shares in 2011 and 2010, respectively, of Common Stock pursuant to Employee Stock Plans | \$ 1,233,000 | \$ 1,047,000 |
| See accompanying notes | | |

Table of Contents**Consolidated Statements of Stockholders Equity and Comprehensive Income
(Unaudited)**

**For the Three Months Ended March
31, 2011**

| | Common Stock | | Accumulated | | | Treasury Stock | Stockholders Equity |
|---|-------------------------|-------------------|---|--|--|---------------------------|--------------------------------|
| | | | Additional Paid-in Capital | Other Comprehensive Income (Loss) | Total Retained Earnings | | |
| | Shares | Amount | | | | | |
| Balance, December 31, 2010 | 69,315,000 | \$ 693,000 | \$ 100,138,000 | \$ (78,000) | \$ 130,993,000 | \$ (18,667,000) | \$ 213,079,000 |
| Comprehensive income: | | | | | | | |
| Net income for the period | | | | | 7,767,000 | | 7,767,000 |
| Unrealized gain on available for sale marketable securities, net of taxes | | | | 90,000 | | | 90,000 |
| Comprehensive income | | | | | | | 7,857,000 |
| Exercise of stock options and other share-based compensation, net of 7,000 shares tendered for payment | 54,000 | 1,000 | 598,000 | | | 322,000 | 921,000 |
| Tax benefit arising from stock option transactions | | | 27,000 | | | | 27,000 |
| Share-based compensation expense stock options | | | 467,000 | | | | 467,000 |
| | | | 381,000 | | | 19,000 | 400,000 |

| | | | | | | | |
|--|-------------------|-------------------|-----------------------|------------------|-----------------------|------------------------|-----------------------|
| Treasury shares issued for Deferred Compensation Plan funding and redemptions (3,000 shares) | | | | | | | |
| Shares issued pursuant to Employee Stock Plans (76,000 shares) | | 782,000 | | | 451,000 | | 1,233,000 |
| Cash dividends \$.16 per common share | | | | (10,402,000) | | | (10,402,000) |
| Shares issued pursuant to Dividend Reinvestment Plan (2,000 shares) | | 23,000 | | | 12,000 | | 35,000 |
| Balance, | | | | | | | |
| March 31, 2011 | 69,369,000 | \$ 694,000 | \$ 102,416,000 | \$ 12,000 | \$ 128,358,000 | \$ (17,863,000) | \$ 213,617,000 |

See accompanying notes.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

Note 1 Basis of Reporting

The accompanying financial statements are unaudited and do not include certain information and note disclosures required by accounting principles generally accepted in the United States for complete financial statements. However, in our opinion, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The balance sheet shown in this report as of December 31, 2010 has been derived from, and does not include, all the disclosures contained in the financial statements for the year ended December 31, 2010. The financial statements should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010. The results of operations for the three month period ended March 31, 2011 are not necessarily indicative of the results that may be expected for the full fiscal year.

As of March 31, 2011, we operate one wholly-owned subsidiary, Huntingdon Holdings, Inc. (Huntingdon). Huntingdon invests our cash and cash equivalents, and manages our portfolio of marketable securities.

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are used for, but not limited to, our allowance for doubtful accounts, accrued insurance claims, asset valuations and review for potential impairment, share-based compensation, and deferred income taxes. The estimates are based upon various factors including current and historical trends, as well as other pertinent industry and regulatory authority information. We regularly evaluate this information to determine if it is necessary to update the basis for our estimates and to compensate for known changes.

Inventories and supplies include housekeeping and, linen and laundry supplies, as well as dietary provisions and supplies. Inventories and supplies are stated at cost to approximate a first-in, first-out (FIFO) basis. Linen supplies are amortized over a 24 month period.

Revenues are recorded net of sales taxes.

Note 2 Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets acquired of businesses and is not amortized. Goodwill is evaluated for impairment on an annual basis, or more frequently if impairment indicators arise, using a fair-value-based test that compares the fair value of the asset to its carrying value. The goodwill associated with the 2009 acquisition of Contract Environmental Services, Inc. (CES) is deductible for tax purposes over a fifteen year period.

Goodwill by reportable operating segment, as described in Note 5 herein, was approximately \$14,894,000 and \$2,061,000 for Housekeeping and Dietary as of March 31, 2011 and December 31, 2010, respectively.

The cost of intangible assets is based on fair values at the date of acquisition. Intangible assets with determinable lives are amortized on a straight-line basis over their estimated useful life (between 7 and 8 years). The following table sets forth the amounts of our identifiable intangible assets subject to amortization, which were acquired in acquisitions.

| | March 31, 2011 | December 31, 2010 |
|--------------------------------|-------------------|----------------------|
| Customer relationships | \$ 12,400,000 | \$ 12,400,000 |
| Non-compete agreements | 800,000 | 800,000 |
| Total other intangibles, gross | \$ 13,200,000 | \$ 13,200,000 |
| Less accumulated amortization | (6,406,000) | (5,938,000) |
| Other intangibles, net | \$ 6,794,000 | \$ 7,262,000 |

Table of Contents

The customer relationships have a weighted-average amortization period of seven years and the non-compete agreements have a weighted-average amortization period of eight years. The following table sets forth the estimated amortization expense for intangibles subject to amortization for the balance of 2011 and the subsequent five fiscal years:

| Period/Year | Customer Relationships | Non-Compete Agreements | Total |
|------------------------------|------------------------|------------------------|--------------|
| April 1 to December 31, 2011 | \$ 1,329,000 | \$ 75,000 | \$ 1,404,000 |
| 2012 | 1,771,000 | 100,000 | 1,871,000 |
| 2013 | 1,452,000 | 100,000 | 1,552,000 |
| 2014 | 814,000 | 67,000 | 881,000 |
| 2015 | 814,000 | | 814,000 |
| 2016 | 271,000 | | 271,000 |

Amortization expense for the three month periods ended March 31, 2011 and 2010 were \$468,000 and \$497,000, respectively.

Note 3 Fair Value Measurements and Marketable Securities

We, in accordance with U.S. GAAP, define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). Effective January 1, 2008, we elected the fair value option for certain of our marketable securities purchased since such adoption. Management initially elected the fair value option for certain of our marketable securities because it views such investment securities as highly liquid and available to be drawn upon for working capital purposes making them similar to its cash and cash equivalents. Accordingly, we record net unrealized gain or loss in the other income investment and interest caption in our consolidated income statements for such investments. We have not elected the fair value option for marketable securities acquired after December 31, 2009. Although these assets continue to be highly liquid and available, we do not believe these assets are representative of our operating activities. These assets are representative of our investing activities, and they will be available for future needs of the Company to support its current and projected growth.

Table of Contents

Certain of our assets and liabilities are reported at fair value in the accompanying balance sheets. Such assets and liabilities include cash and cash equivalents, marketable securities, accounts and notes receivable, accounts payable, income taxes payable and other accrued expenses. The following tables provide fair value measurement information for our marketable securities and deferred compensation fund investment assets as of March 31, 2011 and December 31, 2010.

| | | As of March 31, 2011 | | | | |
|---|--------------------|-------------------------------|---|---|--|--|
| | | Fair Value Measurement Using: | | | | |
| | | | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| | Carrying Amount | Total Fair Value | | | | |
| Financial Assets | | | | | | |
| Marketable securities | | | | | | |
| Municipal bonds | \$ 41,199,000 | \$ 41,199,000 | \$ | \$ 41,199,000 | \$ | |
| Equity securities - Deferred comp fund | | | | | | |
| Money Market | \$ 2,943,000 | \$ 2,943,000 | \$ | \$ 2,943,000 | \$ | |
| Large Cap Value | 2,624,000 | 2,624,000 | 2,624,000 | | | |
| Large Cap Growth | 2,256,000 | 2,256,000 | 2,256,000 | | | |
| Small Cap Value | 1,258,000 | 1,258,000 | 1,258,000 | | | |
| Fixed Income | 968,000 | 968,000 | 968,000 | | | |
| Specialty | 791,000 | 791,000 | 791,000 | | | |
| Balanced and Lifestyle | 622,000 | 622,000 | 622,000 | | | |
| International | 609,000 | 609,000 | 609,000 | | | |
| Large Cap Blend | 468,000 | 468,000 | 468,000 | | | |
| Mid Cap Growth | 409,000 | 409,000 | 409,000 | | | |
| Equity securities - Deferred comp fund | \$ 12,948,000 | \$ 12,948,000 | \$ 10,005,000 | \$ 2,943,000 | \$ | |

| | | As of December 31, 2010 | | | | |
|---|--------------------|-------------------------------|---|---|--|--|
| | | Fair Value Measurement Using: | | | | |
| | | | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| | Carrying Amount | Total Fair Value | | | | |
| Financial Assets | | | | | | |
| Marketable securities | | | | | | |
| Municipal bonds | \$ 43,437,000 | \$ 43,437,000 | \$ | \$ 43,437,000 | \$ | |
| Equity securities - Deferred comp fund | | | | | | |
| Money Market | \$ 2,737,000 | \$ 2,737,000 | \$ | \$ 2,737,000 | \$ | |
| Large Cap Value | 2,433,000 | 2,433,000 | 2,433,000 | | | |

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| | | | | | |
|--------------------------------|---------------|---------------|--------------|----|--------------|
| Large Cap Growth | 2,106,000 | 2,106,000 | 2,106,000 | | |
| Small Cap Value | 1,152,000 | 1,152,000 | 1,152,000 | | |
| Fixed Income | 987,000 | 987,000 | 987,000 | | |
| Specialty | 712,000 | 712,000 | 712,000 | | |
| Balanced and Lifestyle | 566,000 | 566,000 | 566,000 | | |
| International | 572,000 | 572,000 | 572,000 | | |
| Large Cap Blend | 444,000 | 444,000 | 444,000 | | |
| Mid Cap Growth | 371,000 | 371,000 | 371,000 | | |
| Equity securities comp fund | | | | | |
| Deferred | | | | | |
| | \$ 12,080,000 | \$ 12,080,000 | \$ 9,343,000 | \$ | 2,737,000 \$ |

-8-

Table of Contents

The fair value of the municipal bonds is measured using pricing service data from an external provider. The fair value of equity investments in the funded deferred compensation plan are valued (Level 1) based on quoted market prices. The money market fund in the funded deferred compensation plan is valued (Level 2) at the net asset value (NAV) of the shares held by the plan at the end of the period. As a practical expedient, fair value of our money market fund is valued at the NAV as determined by the custodian of the fund. The money market fund includes short-term United States dollar denominated money-market instruments. The money market fund can be redeemed at its NAV at its measurement date as there are no significant restrictions on the ability of participants to sell this investment.

For the three month periods ended March 31, 2011 and 2010, the other income investment and interest caption on our consolidated statements of income includes an unrealized loss from marketable securities of \$145,000 and \$597,000, respectively, for investments recorded under the fair value option. For the three month periods ended March 31, 2011 and 2010, the accumulated other comprehensive income on our consolidated balance sheet and stockholders equity includes unrealized gains from marketable securities of \$90,000 and unrealized losses of \$60,000, respectively, related to marketable securities that are not recognized under the fair value option in accordance with U.S. GAAP.

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value | Other-than- temporary Impairments |
|------------------------------------|-------------------|------------------------------|-------------------------------|----------------------------|---|
| March 31, 2011 | | | | | |
| Type of security: | | | | | |
| Municipal bonds | \$ 13,353,000 | \$ 423,000 | \$ | \$ 13,776,000 | \$ |
| Municipal bonds available for sale | 27,411,000 | 12,000 | | 27,423,000 | |
| Total debt securities | \$ 40,764,000 | \$ 435,000 | \$ | \$ 41,199,000 | \$ |
| December 31, 2010 | | | | | |
| Type of security: | | | | | |
| Municipal bonds | \$ 18,029,000 | \$ 568,000 | \$ | \$ 18,597,000 | \$ |
| Municipal bonds available for sale | 24,918,000 | | (78,000) | 24,840,000 | |
| Total debt securities | \$ 42,947,000 | \$ 568,000 | \$ (78,000) | \$ 43,437,000 | \$ |

The contractual maturities of available for sale investments held at March 31, 2011 and December 31, 2010 are as follows.

| | March 31, 2011 | December 31, 2010 |
|---|----------------|-------------------|
| Maturing in one year or less | \$ 1,024,000 | \$ 313,000 |
| Maturing after one year through three years | 17,339,000 | 22,325,000 |
| Maturing after three years | 9,060,000 | 2,202,000 |
| Total debt securities available for sale | \$ 27,423,000 | \$ 24,840,000 |

Note 4 Other Contingencies

We have a \$42,000,000 bank line of credit on which we may draw to meet short-term liquidity requirements in excess of internally generated cash flow. Amounts drawn under the line of credit are payable upon demand. At March 31,

2011, there were no borrowings under the line of credit. However, at such date, we had outstanding a \$40,420,000 irrevocable standby letter of credit which relates to payment obligations under our insurance programs. As a result of the letters of credit issued, the amount available under the line of credit was reduced by \$40,420,000 at March 31, 2011. The line of credit requires us to satisfy two financial covenants. We are in compliance with the financial covenants at March 31, 2011 and expect to continue to remain in compliance with such financial covenants. This line of credit expires on June 30, 2012. We believe the line of credit will be renewed at that time.

Table of Contents

We provide our services in 47 states and we are subject to numerous local taxing jurisdictions within those states. Consequently, the taxability of our services is subject to various interpretations within these jurisdictions. In the ordinary course of business, a jurisdiction may contest our reporting positions with respect to the application of its tax code to our services, which may result in additional tax liabilities.

We have tax matters with various taxing authorities. Because of the uncertainties related to both the probable outcomes and amount of probable assessments due, we are unable to make a reasonable estimate of liability. We do not expect the resolution of any of these matters, taken individually or in the aggregate, to have a material adverse effect on our consolidated financial position or results of operations based on our best estimate of the outcomes of such matters.

We are also subject to various claims and legal actions in the ordinary course of business. Some of these matters include payroll and employee-related matters and examinations by governmental agencies. As we become aware of such claims and legal actions, we provide accruals if the exposures are probable and estimable. If an adverse outcome of such claims and legal actions is reasonably possible, we assess materiality and provide such financial disclosure, as appropriate. We believe that these matters, taken individually or in the aggregate, would not have a material adverse effect on our financial position or results of operations.

As a result of the current economic crisis, many states have significant budget deficits. State Medicaid programs are experiencing increased demand, and with lower revenues than projected, they have fewer resources to support their Medicaid programs. In addition, comprehensive health care legislation under the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (together, the Act) was signed into law in March 2010. The Act will significantly impact the governmental healthcare programs which our clients participate, and reimbursements received thereunder from governmental or third-party payors. Furthermore, in the coming year, new proposals or additional changes in existing regulations could be made to the Act which could directly impact the governmental reimbursement programs in which our clients participate. As a result, some state Medicaid programs are reconsidering previously approved increases in nursing home reimbursement or are considering delaying or foregoing those increases. A few states have indicated it is possible they will run out of cash to pay Medicaid providers, including nursing homes. Any negative changes in our clients' reimbursements may negatively impact our results of operations. Although we are currently evaluating the Act's effect on our client base, we may not know the full effect until such a time as these laws are fully implemented and the Centers for Medicare and Medicaid Services and other agencies issue applicable regulations or guidance.

Note 5 Segment Information

Reportable Operating Segments

We manage and evaluate our operations in two reportable segments. The two reportable segments are Housekeeping (housekeeping, laundry, linen and other services), and Dietary (dietary department services). Although both segments serve the same client base and share many operational similarities, they are managed separately due to distinct differences in the type of service provided, as well as the specialized expertise required of the professional management personnel responsible for delivering the respective segment's services. We consider the various services provided within each reportable segment to comprise an identifiable reportable operating segment since such services are rendered pursuant to a single service agreement, specific to that reportable segment, as well as the fact that the delivery of the respective reportable segment's services are managed by the same management personnel of the particular reportable segment.

Differences between the reportable segments' operating results and other disclosed data and our consolidated financial statements relate primarily to corporate level transactions and recording of transactions at the reportable segment level which use methods other than generally accepted accounting principles. Additionally, included in the differences between the reportable segments' operating results and other disclosed data are amounts attributable to Huntingdon, our investment holding company subsidiary. Huntingdon does not transact any business with the reportable segments. Segment amounts disclosed are prior to any elimination entries made in consolidation.

Table of Contents

Housekeeping provides services in Canada, although essentially all of its revenues and net income, 99% in both categories, are earned in one geographic area, the United States. Dietary provides services solely in the United States.

| | Housekeeping Services | Dietary Services | Corporate and Eliminations | Total |
|-------------------------------------|--------------------------|---------------------|----------------------------------|----------------|
| Quarter Ended March 31, 2011 | | | | |
| Revenues | \$ 156,462,000 | \$ 51,657,000 | \$ 271,000 ⁽¹⁾ | \$ 208,390,000 |
| Income before income taxes | 17,195,000 | 3,469,000 | (8,325,000) ⁽¹⁾ | 12,339,000 |
| Quarter Ended March 31, 2010 | | | | |
| Revenues | \$ 140,896,000 | \$ 42,954,000 | \$ (49,000) ⁽¹⁾ | \$ 183,801,000 |
| Income before income taxes | 14,858,000 | 2,190,000 | (4,971,000) ⁽¹⁾ | 12,077,000 |

⁽¹⁾ Represents primarily corporate office cost and related overhead, recording of transactions at the reportable segment level which use methods other than U.S. GAAP and consolidated subsidiaries operating expenses that are not allocated to the reportable segments, net of investment and interest income.

Total Consolidated Revenues from Clients

The following revenues earned from clients represent their reporting in accordance with U.S. GAAP and differ from segment revenues reported above due to the inclusion of adjustments used for segment reporting purposes by management. We earned total revenues from clients in the following service categories:

| | Quarter Ended March 31, | |
|--------------------------------|-------------------------|----------------|
| | 2011 | 2010 |
| Housekeeping services | \$ 105,645,000 | \$ 94,655,000 |
| Laundry and linen services | 50,174,000 | 45,535,000 |
| Dietary services | 51,953,000 | 43,087,000 |
| Maintenance services and other | 618,000 | 524,000 |
| | \$ 208,390,000 | \$ 183,801,000 |

Major Client

We have one client, a nursing home chain (Major Client), which accounted for the respective percentages of our revenues as detailed below:

| | Quarter Ended March 31, | |
|-----------------------|-------------------------|------|
| | 2011 | 2010 |
| Total revenues | 10% | 11% |
| Housekeeping services | 11% | 12% |
| Dietary services | 6% | 10% |

Additionally, at both March 31, 2011 and December 31, 2010, amounts due from such client represented less than 1% of our accounts receivable balance. The loss of such client, or a significant reduction in revenues from such client, would have a material adverse effect on the results of operations of our two operating segments. In addition, if such client changes its payment terms it would increase our accounts receivable balance and have a material adverse effect on our cash flows and cash and cash equivalents.

Table of Contents**Note 6 Earnings Per Common Share**

A reconciliation of the numerator and denominator of basic and diluted earnings per common share is as follows:

| | Quarter ended March 31, 2011 | | |
|---------------------------------------|------------------------------|-------------------------|---------------------|
| | Income (Numerator) | Shares (Denominator) | Per-share Amount |
| Net income | \$ 7,767,000 | | |
| Basic earnings per common share | \$ 7,767,000 | 66,401,000 | \$.12 |
| Effect of dilutive securities Options | | 1,053,000 | |
| Diluted earnings per common share | \$ 7,767,000 | 67,454,000 | \$.12 |

| | Quarter ended March 31, 2010 | | |
|---------------------------------------|------------------------------|-------------------------|---------------------|
| | Income (Numerator) | Shares (Denominator) | Per-share Amount |
| Net income | \$ 7,428,000 | | |
| Basic earnings per common share | \$ 7,428,000 | 65,849,000 | \$.11 |
| Effect of dilutive securities Options | | 1,140,000 | |
| Diluted earnings per common share | \$ 7,428,000 | 66,989,000 | \$.11 |

Options to purchase 480,000 shares of common stock having an average exercise price of \$16.11 per common share were outstanding during the three month period ended March 31, 2011 but not included in the computation of diluted earnings per common share because the options' exercise price were greater than the average market price of the common shares, and therefore, would be antidilutive.

No outstanding options were excluded from the computations of diluted earnings per common share for the three month period ended March 31, 2010 as no outstanding options have an exercise price in excess of the average market value of our common stock at March 31, 2010.

Note 7 Dividends

On March 4, 2011 we paid, to shareholders of record on February 11, 2011, a regular quarterly cash dividend of \$.15625 per common share. Such regular quarterly cash dividend payment in the aggregate was \$10,402,000. Additionally, on April 12, 2011, our Board of Directors declared a regular cash dividend of \$.1575 per common share to be paid on May 13, 2011 to shareholders of record as of April 22, 2011.

Table of Contents**Note 8 Share-Based Compensation****Stock Options**

During the three months ended March 31, 2011, the stock option activity under our 2002 Stock Option Plan, 1995 Incentive and Non-Qualified Stock Option Plan for key employees, and 1996 Non-Employee Director's Stock Option Plan (collectively the Stock Option Plans), was as follows:

| | Weighted Average Price | Number of Shares | Weighted Average Remaining Contractual Life (In Years) | Aggregate Intrinsic Value |
|--|------------------------------|---------------------|---|---------------------------------|
| Outstanding, January 1, 2011 | \$ 9.13 | 3,002,000 | | |
| Granted | 16.11 | 508,000 | | |
| Cancelled | 11.95 | (60,000) | | |
| Exercised | 9.00 | (116,000) | | |
| Outstanding, March 31, 2011 | \$ 10.16 | 3,334,000 | 6.22 | \$ 24,710,000 |
| Options exercisable as of March 31, 2011 | | 1,772,000 | 4.09 | \$ 19,144,000 |

The weighted average fair value of options granted during the 2011 and 2010 first quarters was \$3.26 and \$3.98, respectively. The following table summarizes information about stock options outstanding at March 31, 2011.

| Exercise Price Range | Number Outstanding | Options Outstanding | | Weighted Average Exercise price | Number Exercisable | Options Exercisable | |
|----------------------|-----------------------|----------------------------------|---------|--|-----------------------|--|-------|
| | | Remaining Contractual Life | Average | | | Weighted Average Exercise Price | Price |
| \$1.83 - 2.50 | 458,000 | 1.09 | \$ | 2.11 | 458,000 | \$ | 2.11 |
| 3.68 - 3.68 | 388,000 | 2.74 | | 3.68 | 388,000 | | 3.68 |
| 6.07 - 6.07 | 338,000 | 3.74 | | 6.07 | 338,000 | | 6.07 |
| 10.39 - 10.39 | 530,000 | 7.76 | | 10.39 | 196,000 | | 10.39 |
| \$13.93 - 16.11 | 1,620,000 | 8.51 | | 14.77 | 392,000 | | 14.05 |
| | 3,334,000 | 6.22 | \$ | 10.16 | 1,772,000 | \$ | 6.77 |

Other information pertaining to option activity during the three month periods ended March 31, 2011 and 2010 was as follows:

| | March 31, 2011 | March 31, 2010 |
|--|-------------------|-------------------|
| Weighted average grant-date fair value of stock options granted: | \$ 1,477,000 | \$ 2,176,000 |

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| | | | | |
|--|----|-----------|----|-----------|
| Total fair value of stock options vested: | \$ | 1,015,000 | \$ | 681,000 |
| Total intrinsic value of stock options exercised: | \$ | 918,000 | \$ | 2,048,000 |
| Total pre-tax stock-based compensation expense charged against income: | \$ | 467,000 | \$ | 190,000 |
| Total unrecognized compensation expense related to non-vested options: | \$ | 4,950,000 | \$ | 4,181,000 |

-13-

Table of Contents

Under our Stock Option Plans at March 31, 2011, in addition to the 3,334,000 shares issuable pursuant to outstanding option grants, an additional 5,873,000 shares of our Common Stock are available for future grants. Options outstanding and exercisable were granted at stock option prices which were not less than the fair market value of our Common Stock on the date the options were granted and no option has a term in excess of ten years. Additionally, with the exception of the options granted in years 2008 through 2011, options became vested and exercisable either on the date of grant or commencing six months after the option grant date. The options granted in 2008 through 2011 become vested and exercisable ratably over a five year period on each anniversary date of the option grant.

At March 31, 2011, the total unrecognized compensation expense related to non-vested options, as reported above, was expected to be recognized through the fourth quarter of 2015 for the options granted in 2011 and the fourth quarter of 2014 for the options granted in 2010. The fair value of options granted in 2011 and 2010 was estimated on the date of grant using the Black-Scholes valuation model with the following weighted average assumptions:

| | 2011 | 2010 |
|---|-------------|-------------|
| Risk-free interest rate | 2.6% | 2.5% |
| Expected volatility | 27.4% | 42.1% |
| Weighted average expected life in years | 7.4 | 4.5 |
| Dividend yield | 3.7% | 3.5% |

Employee Stock Purchase Plan

Total pre-tax share-based compensation expense charged against income for the three month periods ended March 31, 2011 and 2010 for options granted under our Employee Stock Purchase Plan (ESPP) was \$93,000 and \$74,000, respectively. It is estimated, at this time, that the expense attributable to such share-based payments in each of the subsequent quarters of 2011 will approximate the amount recorded in the 2011 first quarter. However, such future expense related to our ESPP will be impacted by, and be dependent on the change in our stock price over the remaining period up to the December 31, 2011 measurement date.

Such expense was estimated on the date of grant using the Black-Scholes valuation model with the following weighted average assumptions:

| | 2011 | 2010 |
|---|-------------|-------------|
| Risk-free interest rate | 0.04% | 0.2% |
| Expected volatility | 25.0% | 34.0% |
| Weighted average expected life in years | 1.0 | 1.0 |
| Dividend yield | 3.7% | 3.5% |

We may issue new common stock or re-issue common stock from treasury to satisfy our obligations under any of our share-based compensation plans.

Note 9 Related Party Transactions

The brother of a director (Related Party) has ownership interests in several different facilities which had entered into service agreements with us. In the three month period ended March 31, 2011, we did not have any active services agreements with these facilities. For the three month period ended March 31, 2010, the service agreements with these facilities in which the Related Party had ownership interests resulted in revenues of approximately \$1,096,000. At December 31, 2010, accounts receivable from these Related Party facilities of \$750,000 are included in the accompanying consolidated balance sheet; during the three month period ended March 31, 2011, we wrote off such accounts receivable due from the Related Party due to the completion of these facilities' bankruptcy proceedings and, accordingly, do not have any outstanding receivables from the Related Party as of March 31, 2011.

Another of our directors is a member of a law firm which was retained by us. In each of the three month periods ended March 31, 2011 and 2010, fees received from us by such firm did not exceed \$100,000. Additionally, such fees did not exceed, in either three month period, 5% of such firm's revenues.

Table of Contents

Note 10 Income Taxes

For the three month period ended March 31, 2011, our effective tax rate was 37.0%, a decrease from the 38.5% effective tax rate for the comparable 2010 period. Such differences between the effective tax rates and the applicable U.S. federal statutory rate arise primarily from the effect of state and local income taxes and tax credits available to the Company. The decrease in the effective tax rate is primarily due to an increase in expected tax credits realized for 2011 compared to previous fiscal periods. The Company may realize a significant tax credit during 2011 from the New Hire Retention Credit, a one-time general business credit at the Federal level that was authorized by the Hiring Incentives to Restore Employment Act of 2010. The new hire retention credit allows an employer a credit of up to \$1,000 for each eligible worker that was retained for at least 52 consecutive weeks of qualified employment. The Company has earned an immaterial amount for the three month period ended March 31, 2011, but due to the eligibility requirements, cannot reasonably estimate the expected amount of the credit to be realized for the remainder of the year. If a significant amount of the credit is earned in 2011, our effective tax rate could be reduced below 37.0%.

We account for income taxes using the asset and liability method, which results in recognizing income tax expense based on the amount of income taxes payable or refundable for the current year. Additionally, we evaluate regularly the tax positions taken or expected to be taken resulting from financial statement recognition of certain items. Based on our evaluation, we have concluded that there are no significant uncertain tax positions requiring recognition in our financial statements. Our evaluation was performed for the tax years ended December 31, 2007 through 2010 (with regard to U.S. federal income tax returns) and December 31, 2006 through 2010 (with regard to various state and local income tax returns), the tax years which remain subject to examination by major tax jurisdictions as of March 31, 2011.

We may from time to time be assessed interest or penalties by taxing jurisdictions, although any such assessments historically have been minimal and immaterial to our financial results. When we have received an assessment for interest and/or penalties, it has been classified in the financial statements as selling, general and administrative expense.

Note 11 Subsequent Event

We evaluated all subsequent events through the date these financial statements are being filed with the SEC. There were no events or transactions occurring during this subsequent event reporting period which require recognition or disclosure in the financial statements.

Table of Contents

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement Regarding Forward Looking Statements

This report and documents incorporated by reference into this report contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934 (the Exchange Act), as amended, which are not historical facts but rather are based on current expectations, estimates and projections about our business and industry, our beliefs and assumptions. Words such as believes, anticipates, plans, expects, will, goal, and similar expressions are intended to identify forward-looking statements. The inclusion of forward-looking statements should not be regarded as a representation by us that any of our plans will be achieved. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Such forward looking information is also subject to various risks and uncertainties. Such risks and uncertainties include, but are not limited to, risks arising from our providing services exclusively to the health care industry, primarily providers of long-term care; proposed and enacted legislation and/or regulations to reform the U.S. healthcare system in an effort to contain healthcare costs; credit and collection risks associated with this industry; one client accounting for approximately 10% of revenues in the three month period ended March 31, 2011 - (see note 5, Segment Information Major Client in the accompanying Notes to Consolidated Financial Statements); our claims experience related to workers compensation and general liability insurance; the effects of changes in, or interpretations of laws and regulations governing the industry, our workforce and services provided, including state and local regulations pertaining to the taxability of our services; and the risk factors described in Part I of our Form 10-K for the year ended December 31, 2010 (the 2010 10-K) under Government Regulation of Clients, Competition, Service Agreements/Collections, and under Item IA of the 2010 10-K, Risk Factors. Many of our clients' revenues are highly contingent on Medicare and Medicaid reimbursement funding rates, which Congress has affected through the enactment of a number of major laws during the past decade, most recently the March 2010 enactment of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (together, the Act). Currently, the U.S. Congress is considering further changes in legislation relating to health care in the United States which, among other initiatives, may impose cost containment measures impacting our clients. These enacted and proposed laws have significantly altered, or threaten to alter, overall government reimbursement funding rates and mechanisms. In addition, further adverse economic conditions could adversely affect such funding. The overall effect of these laws and trends in the long-term care industry has affected and could adversely affect the liquidity of our clients, resulting in their inability to make payments to us on agreed-upon payment terms. These factors, in addition to delays in payments from clients, have resulted in, and could continue to result in, significant additional bad debts in the near future. Additionally, our operating results would be adversely affected if unexpected increases in the costs of labor and labor related costs, materials, supplies and equipment used in performing services could not be passed on to our clients.

In addition, we believe that to improve our financial performance we must continue to obtain service agreements with new clients, provide new services to existing clients, achieve modest price increases on current service agreements with existing clients and maintain internal cost reduction strategies at our various operational levels. Furthermore, we believe that our ability to sustain the internal development of managerial personnel is an important factor impacting future operating results and successfully executing projected growth strategies.

RESULTS OF OPERATIONS

The following discussion is intended to provide the reader with information that will be helpful in understanding our financial statements including the changes in certain key items in comparing financial statements period to period. We also intend to provide the primary factors that accounted for those changes, as well as a summary of how certain accounting principles affect our financial statements. In addition, we are providing information about the financial results of our two operating segments to further assist in understanding how these segments and their results affect our consolidated results of operations. This discussion should be read in conjunction with our financial statements as of March 31, 2011 and December 31, 2010 and the periods then ended and the notes accompanying those financial statements.

Table of Contents**Overview**

We provide management, administrative and operating expertise and services to the housekeeping, laundry, linen, facility maintenance and dietary service departments of the health care industry, including nursing homes, retirement complexes, rehabilitation centers and hospitals located throughout the United States. We believe that we are the largest provider of housekeeping and laundry management services to the long-term care industry in the United States, rendering such services to approximately 2,550 facilities in 47 states as of March 31, 2011. Although we do not directly participate in any government reimbursement programs, our clients' reimbursements are subject to government regulation. Therefore, clients are directly affected by any legislation relating to Medicare and Medicaid reimbursement programs.

We primarily provide our services pursuant to full service agreements with our clients. In such agreements, we are responsible for the day to day management of the department managers and hourly employees located at our clients facilities. We also provide services on the basis of a management-only agreement for a very limited number of clients. Our agreements with clients typically provide for renewable one year service terms, cancelable by either party upon 30 to 90 days' notice after the initial 90-day period.

We are organized into two reportable segments; housekeeping, laundry, linen and other services (Housekeeping), and dietary department services (Dietary). At March 31, 2011, Housekeeping is being provided at essentially all of our approximately 2,550 client facilities, generating approximately 75% or \$156,437,000 of the total revenues for the three month period ending March 31, 2011. Dietary is being provided to approximately 410 client facilities at March 31, 2011 and contributed approximately 25% or \$51,953,000 to the three month period ended March 31, 2011 total revenues.

Housekeeping consists of managing the client's housekeeping department which is principally responsible for the cleaning, disinfecting and sanitizing of patient rooms and common areas of a client's facility, as well as the laundering and processing of the personal clothing belonging to the facility's patients. Also within the scope of this segment's service is the responsibility for laundering and processing of the bed linens, uniforms and other assorted linen items utilized by a client facility.

Dietary consists of managing the client's dietary department which is principally responsible for food purchasing, meal preparation and providing dietician consulting professional services, which includes the development of a menu that meets the patient's dietary needs.

We currently operate one wholly-owned subsidiary, Huntingdon Holdings, Inc. (Huntingdon). Huntingdon invests our cash and cash equivalents, as well as managing our portfolio of available-for-sale marketable securities.

Consolidated Operations

The following table sets forth, for the periods indicated, the percentage which certain items bear to consolidated revenues:

| | Relation to Consolidated Revenues | |
|-------------------------------------|--------------------------------------|--------|
| | For the Quarter Ended March 31, | |
| | 2011 | 2010 |
| Revenues | 100.0% | 100.0% |
| Operating costs and expenses: | | |
| Costs of services provided | 86.4% | 86.3% |
| Selling, general and administrative | 8.1% | 7.6% |
| Investment and interest | 0.3% | 0.4% |
| Income before income taxes | 5.8% | 6.5% |
| Income taxes | 2.2% | 2.5% |
| Net income | 3.6% | 4.0% |

Subject to the factors noted in the Cautionary Statement Regarding Forward Looking Statements included in this report, we anticipate our financial performance for the remainder of 2011 may be comparable to the percentages presented in the above table as they relate to consolidated revenues.

Housekeeping is our largest and core reportable segment, representing approximately 75% of consolidated revenues for the quarter ended March 31, 2011. Dietary revenues represented approximately 25% of consolidated revenues for such quarter.

Table of Contents

Although there can be no assurance thereof, we believe that for the remainder of 2011 each of Housekeeping s and Dietary s revenues, as a percentage of consolidated revenues, will remain approximately the same as their respective percentages noted above. Furthermore, we expect the sources of organic growth for the remainder of 2011 for the respective operating segments will be primarily the same as historically experienced. Accordingly, although there can be no assurance thereof, the growth in Dietary is expected to come from our current Housekeeping client base, while growth in Housekeeping will primarily come from obtaining new clients.

2011 First Quarter Compared with 2010 First Quarter

The following table sets forth 2011 first quarter income statement key components that we use to evaluate our financial performance on a consolidated and reportable segment basis, as well as the percentage increases of each compared to 2010 first quarter amounts. The difference between the reportable segments operating results and other disclosed data and our consolidated financial statements relate primarily to corporate level transactions and recording of transactions at the reportable segment level which use methods other than generally accepted accounting principles.

| | Consolidated | % inc./ (dec.) | Corporate and Eliminations | Housekeeping Amount | % inc. | Dietary Amount | % inc. |
|--|----------------|----------------------|----------------------------------|------------------------|--------|-------------------|--------|
| Revenues | \$ 208,390,000 | 13.4% | \$ 271,000 | \$ 156,462,000 | 11.0% | \$ 51,657,000 | 20.3% |
| Cost of services provided | 179,985,000 | 13.5 | (7,470,000) | 139,267,000 | 0.1 | 48,188,000 | 0.2 |
| Selling, general and administrative | 16,780,000 | 20.7 | 16,780,000 | | | | |
| Investment and interest income | 714,000 | (4.8) | 714,000 | | | | |
| Income before income taxes | \$ 12,339,000 | 2.2% | (8,325,000) | \$ 17,195,000 | 15.7% | \$ 3,469,000 | 58.4% |

Revenues**Consolidated**

Consolidated revenues increased 13.4% to \$208,390,000 in the 2011 first quarter compared to \$183,801,000 in the 2010 first quarter as a result of the factors discussed below under Reportable Segments.

Our Major Client accounted for approximately 10% and 11%, respectively, of consolidated revenues in the three month periods ended March 31, 2011 and 2010, respectively. The loss of such client would have a material adverse effect on the results of operations of our two operating segments. In addition, if such client changes its payment terms it would increase our accounts receivable balance and have a material adverse effect on our cash flows and cash and cash equivalents.

Reportable Segments

Housekeeping s 11.0% net growth in reportable segment revenues resulted primarily from an increase in revenues attributable to service agreements entered into with new clients.

Dietary s 20.3% net growth in reportable segment revenues is primarily a result of providing this service to existing Housekeeping clients.

We derived 11% and 6%, respectively, of Housekeeping and Dietary s 2011 first quarter revenues from our Major Client.

Costs of services provided**Consolidated**

Cost of services provided, on a consolidated basis, as a percentage of consolidated revenues for the 2011 first quarter remained essentially unchanged at 86.4% from the 86.3% recognized in the corresponding 2010 quarter. The following table provides a comparison of the primary cost of services provided-key indicators that we manage on a consolidated basis in evaluating our financial performance. In addition, see the discussion below on Reportable Segments which provides additional details to explain the slight increase in consolidated costs of services provided.

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| Cost of Services Provided-Key Indicators | 2011% | 2010% | Inc./.(Dec.) |
|--|-------|-------|--------------|
| Bad debt provision | 0.6 | 0.3 | 0.3 |
| Workers compensation and general liability insurance | 3.7 | 3.7 | |

-18-

Table of Contents

The bad debt provision increased primarily due to the write-off of amounts owed from certain nursing homes that concluded their bankruptcy proceedings during the three months ended March 31, 2011. The workers' compensation and general liability insurance expense is consistent with prior periods.

Reportable Segments

Cost of services provided for Housekeeping, as a percentage of Housekeeping revenues, for the 2011 first quarter decreased to 89.0% from 89.5% compared to the corresponding 2010 quarter. Cost of services provided for Dietary, as a percentage of Dietary revenues, for the 2011 first quarter decreased to 93.3% from 94.9% in the corresponding 2010 quarter.

The following table provides a comparison of the primary cost of services provided-key indicators, as a percentage of the respective segment's revenues, which we manage on a reportable segment basis in evaluating our financial performance:

| Cost of Services Provided-Key Indicators | 2011% | 2010% | Inc./Dec.) |
|--|-------|-------|------------|
| Housekeeping labor and other labor costs | 79.5 | 80.3 | (0.8) |
| Housekeeping supplies | 7.0 | 6.6 | 0.4 |
| Dietary labor and other labor costs | 52.0 | 53.1 | (1.1) |
| Dietary supplies | 38.8 | 39.1 | (0.3) |

The decrease in Housekeeping labor and other labor costs, as a percentage of Housekeeping revenues, resulted primarily from efficiencies recognized in managing labor at the facility level. The increase in Housekeeping supplies, as a percentage of Housekeeping revenues, resulted primarily from an increase in linen supplies due to the growth in laundry and linen revenue compared to overall Housekeeping revenues. Additionally, we have added more clients where we provide a greater amount of supplies under the terms of our service agreements as compared to what we have historically provided to our client base.

The decrease in Dietary labor and other labor costs, as a percentage of Dietary revenues, resulted from efficiencies in managing these costs at the facility level. The decrease in Dietary supplies, as a percentage of Dietary revenues, is a result of improved management of these costs and more favorable vendor pricing programs obtained through further consolidation of dietary supply vendors.

The decreases in Housekeeping and Dietary labor and Dietary supply costs as a percentage of revenue from the first quarter of 2011 versus 2010 were offset by the aggregate increases in other cost components within cost of goods sold that resulted in an essentially unchanged consolidated costs of services as a percentage of revenues for the comparable period.

Consolidated Selling, General and Administrative Expense

| | | Three Months Ended | | |
|--|-----|--------------------|----------------|----------|
| | | March 31, 2011 | March 31, 2010 | % Growth |
| Selling, general and administrative expense w/o deferred compensation change | (a) | \$ 16,351,000 | \$ 13,507,000 | 21.1% |
| Gain of deferred compensation fund | | 429,000 | 394,000 | 8.9% |
| Consolidated selling, general and administrative expense | (b) | \$ 16,780,000 | \$ 13,901,000 | 20.7% |

(a) Selling, general and administrative expense excluding the increase in the market value of the Deferred Compensation Fund.

(b) Consolidated selling, general and administrative expense reported for the period presented.

Although our growth in consolidated revenues was 13.4%, 2011 first quarter selling, general and administrative expenses excluding gain of deferred compensation fund increased 21.1% or \$2,844,000 compared to the 2010 first

quarter. Consequently, 2011 first quarter selling, general and administrative expenses (excluding impact of deferred compensation fund), as a percentage of consolidated revenues, increased to 7.8% as compared to 7.3% in the 2010 first quarter. This percentage increase resulted primarily from an increase in our payroll and payroll related expenses, travel related costs and professional fees. The percentage increase in payroll and payroll related costs resulting from the development of additional management structure in advance of the current and expected new business. The increase in travel costs is primarily due to development of new business and costs incurred to start new facilities.

Table of Contents

Consolidated Investment and Interest Income

Investment and interest income, as a percentage of consolidated revenues, decreased to .3% in the 2011 first quarter compared to .4% in the 2010 first quarter. The net decrease is primarily attributable to the decrease in returns on our cash and cash equivalents and marketable securities in the 2011 first quarter compared to returns on such accounts in the 2010 first quarter.

Income before Income Taxes

Consolidated

As a result of the discussion above related to revenues and expenses, consolidated income before income taxes for the 2011 first quarter decreased to 5.8%, as a percentage of consolidated revenues, compared to 6.5% in the 2010 first quarter.

Reportable Segments

Housekeeping's 15.7% increase in income before income taxes is primarily attributable to the gross profit earned on the 11.0% increase in reportable segment revenues. The increase in gross profit was also attributable to the decrease in labor and labor related costs which were reduced by an increase in housekeeping supplies as a percentage of Housekeeping revenues.

Dietary's income before income taxes increased 58.4% on a reportable segment basis is primarily attributable to the gross profit earned on the 20.3% increase in reportable segment revenues. The increase in gross profit was also attributable to the decrease in labor and labor related and dietary supply costs as a percentage of Dietary revenues.

Consolidated Income Taxes

For the three month period ended March 31, 2011, our effective tax rate was 37.0%, which was a decrease from the 38.5% effective tax rate for the comparable 2010 period. Such differences between the effective tax rates and the applicable U.S. federal statutory rate primarily arise from the effect of state and local income taxes and tax credits available to the Company. The decrease in the effective tax rate is primarily due to increase in expected tax credits realized for 2011 compared to previous fiscal periods. The Company may realize a significant tax credit during 2011 from the New Hire Retention Credit, a one-time general business credit at the Federal level that was authorized by the Hiring Incentives to Restore Employment Act of 2010. The new hire retention credit allows an employer a credit of up to \$1,000 for each eligible worker that was retained for at least 52 consecutive weeks of qualified employment. The Company has earned an immaterial amount for the three month period ended March 31, 2011, but due to the eligibility requirements, cannot reasonably estimate the expected amount of the credit to be realized for the remainder of the year. If a significant amount of the credit is earned in 2011, our effective tax rate could be reduced below 37.0%.

Consolidated Net Income

As a result of the matters discussed above, consolidated net income for the 2011 first quarter decreased to 3.6%, as a percentage of consolidated revenues, compared to 4.0% in the 2010 first quarter.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting standards generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

We consider the three policies discussed below to be critical to an understanding of our financial statements because their application places the most significant demands on our judgment. Therefore, it should be noted that financial reporting results rely on estimating the effect of matters that are inherently uncertain. Specific risks for these critical accounting policies and estimates are described in the following paragraphs. For these estimates, we caution that future events rarely develop exactly as forecasted, and the best estimates routinely require adjustment. Any such adjustments or revisions to estimates could result in material differences to previously reported amounts.

The three policies discussed are not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting standards generally accepted in the United States, with no need for our judgment in their application. There are also areas in which our judgment in selecting another available alternative would not produce a materially different result. See our audited consolidated financial statements and notes thereto which are included in our Annual Report on Form 10-K for the

year ended December 31, 2010, which contain accounting policies and estimates and other disclosures required by accounting principles generally accepted in the United States.

Table of Contents**Allowance for Doubtful Accounts**

The Allowance for Doubtful Accounts (the Allowance) is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. The Allowance is evaluated based on our periodic review of accounts and notes receivable and is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

We have had varying collection experience with respect to our accounts and notes receivable. When contractual terms are not met, we generally encounter difficulty in collecting amounts due from certain of our clients. Therefore, we sometimes have been required to extend the period of payment for certain clients beyond contractual terms. These clients include those who have terminated service agreements and slow payers experiencing financial difficulties. In making credit evaluations, we analyze and anticipate, where possible, the specific cases described above and consider the general collection risks associated with trends in the long-term care industry. We also establish credit limits, perform ongoing credit evaluations, and monitor accounts to minimize the risk of loss.

In accordance with the risk of extending credit, we regularly evaluate our accounts and notes receivable for impairment or loss of value and when appropriate, will provide in our Allowance for such receivables. We generally follow a policy of reserving for receivables due from clients in bankruptcy, clients with which we are in litigation for collection and other slow paying clients. The reserve is based upon our estimates of ultimate collectability. Correspondingly, once our recovery of a receivable is typically determined through litigation, bankruptcy proceedings or negotiation to be less than the recorded amount on our balance sheet, we will charge-off the applicable amount to the Allowance.

Our methodology for the Allowance is based upon a risk-based evaluation of accounts and notes receivable associated with a client's ability to make payments. Such Allowance generally consists of an initial amount established based upon criteria generally applied if and when a client account files bankruptcy, is placed for collection/litigation and/or is considered to be pending collection/litigation. The initial Allowance is adjusted either higher or lower when additional information is available to permit a more accurate estimate of the collectability of an account.

Summarized below for the three month period ended March 31, 2011 and year ended December 31, 2010 are the aggregate account balances for the three Allowance criteria noted above, net write-offs of client accounts, bad debt provision and allowance for doubtful accounts.

| Period Ended | Aggregate Account of Balances of Clients in Bankruptcy or in/or Pending Collection/ Litigation | | | Net Write-offs of Client Accounts | Bad Debt Provision | Allowance for Doubtful Accounts |
|-------------------|---|--------------|--------------|---|-----------------------|--|
| | \$ | \$ | \$ | | | |
| March 31, 2011 | \$ 8,344,000 | \$ 1,221,000 | \$ 1,160,000 | \$ 1,160,000 | \$ 4,008,000 | |
| December 31, 2010 | 8,550,000 | 2,771,000 | 2,200,000 | 2,200,000 | 4,069,000 | |

At March 31, 2011, we identified accounts totaling \$8,344,000 that require an Allowance based on potential impairment or loss of value. An Allowance totaling \$1,160,000 was provided for these accounts at such date. Actual collections of these accounts could differ from that which we currently estimate. If our actual collection experience is 5% less than our estimate, the related increase to our Allowance would decrease net income by \$80,000.

Notwithstanding our efforts to minimize credit risk exposure, our clients could be adversely affected if future industry trends, as more fully discussed under Liquidity and Capital Resources below, and as further described in our 2010 Annual Report on Form 10-K in Part I under Risk Factors, Government Regulation of Clients and Service Agreements/Collections, change in such a manner as to negatively impact the cash flows of our clients. If our clients experience a negative impact in their cash flows, it would have a material adverse effect on our results of operations and financial condition.

Table of Contents

Accrued Insurance Claims

We currently have a Paid Loss Retrospective Insurance Plan for general liability and workers compensation insurance, which comprise approximately 31% of our liabilities at March 31, 2011. Our accounting for this plan is affected by various uncertainties because we must make assumptions and apply judgment to estimate the ultimate cost to settle reported claims and claims incurred but not reported as of the balance sheet date. We address these uncertainties by regularly evaluating our claims pay-out experience, present value factor and other factors related to the nature of specific claims in arriving at the basis for our accrued insurance claims estimate. Our evaluations are based primarily on current information derived from reviewing our claims experience and industry trends. In the event that our claims experience and/ or industry trends result in an unfavorable change, it would have a material adverse effect on our consolidated results of operations and financial condition. Under these plans, predetermined loss limits are arranged with an insurance company to limit both our per-occurrence cash outlay and annual insurance plan cost.

For workers compensation, we record a reserve based on the present value of future payments, including an estimate of claims incurred but not reported, that are developed as a result of a review of our historical data and open claims. The present value of the payout is determined by applying an 8% discount factor against the estimated value of the claims over the estimated remaining pay-out period. Reducing the discount factor by 1% would reduce net income by approximately \$63,000. Additionally, reducing the estimated payout period by six months would result in an approximate \$127,000 reduction in net income.

For general liability, we record a reserve for the estimated ultimate amounts to be paid for known claims. The estimated ultimate reserve amount recorded is derived from the estimated claim reserves provided by our insurance carrier reduced by an historical experience factor.

Asset Valuations and Review for Potential Impairment

We review our fixed assets, goodwill and other intangible assets at least annually or whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. This review requires that we make assumptions regarding the value of these assets and the changes in circumstances that would affect the carrying value of these assets. If such analysis indicates that a possible impairment may exist, we are then required to estimate the fair value of the asset and, as deemed appropriate, expense all or a portion of the asset. The determination of fair value includes numerous uncertainties, such as the impact of competition on future value. We believe that we have made reasonable estimates and judgments in determining whether our long-term assets have been impaired; however, if there is a material change in the assumptions used in our determination of fair value or if there is a material change in economic conditions or circumstances influencing fair value, we could be required to recognize certain impairment charges in the future. As a result of our most recent reviews, no changes in asset values were required.

Liquidity and Capital Resources

At March 31, 2011, we had cash and cash equivalents, and marketable securities of \$77,891,000 and working capital of \$182,171,000 compared to December 31, 2010 cash and cash equivalents, and marketable securities of \$83,129,000 and working capital of \$181,244,000. We view our cash and cash equivalents, and marketable securities as our principal measure of liquidity. Our current ratio at March 31, 2011 increased to 6.3 to 1 compared to 5.5 to 1 at December 31, 2010. This increase resulted primarily from the timing of payments for accrued payroll, accrued and withheld payroll taxes, which was offset by the decrease in cash and cash equivalents and marketable securities. On an historical basis, our operations have generally produced consistent cash flow and have required limited capital resources. We believe our current and near term cash flow positions will enable us to fund our continued anticipated growth.

Operating Activities

The net cash provided by our operating activities was \$5,942,000 for the three month period ended March 31, 2011. The principal sources of net cash flows from operating activities for the three month period ended March 31, 2011 were net income, and non-cash charges to operations for bad debt provisions, depreciation and amortization. Additionally, operating activities cash flows increased by \$7,978,000 as a result of the increase in accrued insurance claims, deferred compensation liability and accounts payable and accrued expenses and the decrease in prepaid income taxes for the three month period. These operating cash inflows were offset primarily by the cash outflow of \$10,490,000 related to the timing of accrued payroll, accrued and withheld payroll taxes and the increase in accounts

and notes receivable due to the revenue growth experienced in this period.

Investing Activities

Our principal source of cash in investing activities for the three month period ended March 31, 2011 was \$1,950,000 for the net sales of marketable securities. The net sales of marketable securities were primarily the result of timing, and these proceeds are expected to be reinvested into similar securities. Additionally, we expended \$1,488,000 for the purchase of housekeeping equipment, computer software and equipment, and laundry equipment installations. Under our current plans, which are subject to revision upon further review, it is our intention to spend an aggregate of \$1,000,000 to \$2,000,000 during the remainder of 2011 for such capital expenditures.

Table of Contents**Financing Activities**

On March 4, 2011 we paid, to shareholders of record on February 11, 2011, a regular quarterly cash dividend of \$.15625 per common share. Such regular quarterly cash dividend payment in the aggregate was approximately \$10,402,000. Additionally, on April 12, 2011, our Board of Directors declared a regular cash dividend of \$.1575 per common share to be paid on May 13, 2011 to shareholders of record as of April 22, 2011.

Our Board of Directors reviews our dividend policy on a quarterly basis. Although there can be no assurance that we will continue to pay dividends or the amount of the dividend, we expect to continue to pay a regular quarterly cash dividend. In connection with the establishment of our dividend policy, we adopted a Dividend Reinvestment Plan in 2003.

During the first quarter of 2011, we received proceeds of \$921,000 from the exercise of stock options by employees. Additionally, as a result of deductions derived from the stock option exercises, we recognized an income tax benefit of \$27,000.

Line of Credit

We have a \$42,000,000 bank line of credit on which we may draw to meet short-term liquidity requirements in excess of internally generated cash flow. Amounts drawn under the line of credit are payable upon demand. At March 31, 2011, there were no borrowings under the line. However, at such date, we had outstanding a \$40,420,000 irrevocable standby letter of credit which relate to payment obligations under our insurance programs. As a result of the letter of credit issued, the amount available under the line of credit was reduced by \$40,420,000 at March 31, 2011.

The line of credit requires us to satisfy two financial covenants. Such covenants, and their respective status at March 31, 2011, were as follows:

| Covenant Description and Requirement | Status at March 31, 2011 |
|---|-----------------------------|
| Commitment coverage ratio: cash and cash equivalents plus marketable securities must equal or exceed outstanding obligations under the line by a multiple of 1.25 | 1.85 |
| Tangible net worth: must exceed \$189,000,000 | \$ 189,867,000 |

As noted above, we complied with the financial covenants at March 31, 2011 and expect to continue to remain in compliance with such financial covenants. This line of credit expires on June 30, 2012. We believe the line of credit will be renewed at that time.

Accounts and Notes Receivable

We expend considerable effort to collect the amounts due for our services on the terms agreed upon with our clients. Many of our clients participate in programs funded by federal and state governmental agencies which historically have encountered delays in making payments to its program participants. Congress has enacted a number of laws during the past decade that have significantly altered, or may alter, overall government reimbursement for nursing home services. Because our clients' revenues are generally dependent on Medicare and Medicaid reimbursement funding rates and mechanisms, the overall effect of these laws and trends in the long term care industry have affected and could adversely affect the liquidity of our clients, resulting in their inability to make payments to us on agreed upon payment terms. These factors, in addition to delays in payments from clients, have resulted in and could continue to result in significant additional bad debts in the near future. Whenever possible, when a client falls behind in making agreed-upon payments, we convert the unpaid accounts receivable to interest bearing promissory notes. The promissory notes receivable provide a means by which to further evidence the amounts owed and provide a definitive repayment plan and therefore may ultimately enhance our ability to collect the amounts due. At March 31, 2011 and December 31, 2010, we had \$8,715,000 and \$9,269,000, net of reserves, respectively, of such promissory notes outstanding. Additionally, we consider restructuring service agreements from full service to management-only service in the case of certain clients experiencing financial difficulties. We believe that such restructurings may provide us with a means to maintain a relationship with the client while at the same time minimizing collection exposure.

Table of Contents

As a result of the current economic crisis, many states have significant budget deficits. State Medicaid programs are experiencing increased demand, and with lower revenues than projected, they have fewer resources to support their Medicaid programs. In addition, in March 2010, comprehensive health care reform legislation was signed into law. The Act will significantly impact the governmental healthcare programs our clients participate in, and reimbursements received there under from governmental or third-party payors. Furthermore, in the coming year, new proposals or additional changes in existing regulations could be made under the Act which could directly impact the governmental reimbursement programs in which our clients participate. As a result, some state Medicaid programs are reconsidering previously approved increases in nursing home reimbursement or are considering delaying those increases. A few states have indicated they may run out of cash to pay Medicaid providers, including nursing homes. Any negative changes in our clients' reimbursements would negatively impact our results of operations. Although we are currently evaluating the Act's effect on our client base, we may not know the full effect until such a time as these laws are fully implemented and the Centers for Medicare and Medicaid Services and other agencies issue applicable regulations or guidance.

We have had varying collection experience with respect to our accounts and notes receivable. When contractual terms are not met, we generally encounter difficulty in collecting amounts due from certain of our clients. Therefore, we have sometimes been required to extend the period of payment for certain clients beyond contractual terms. These clients include those who have terminated service agreements and slow payers experiencing financial difficulties. In order to provide for these collection problems and the general risk associated with the granting of credit terms, we have recorded bad debt provisions (in an Allowance for Doubtful Accounts) of \$1,160,000 and \$600,000 for the three months ended March 31, 2011 and 2010, respectively. These provisions represent approximately .6% and .3% as a percentage of total revenues for such respective periods. In making our credit evaluations, in addition to analyzing and anticipating, where possible, the specific cases described above, we consider the general collection risk associated with trends in the long-term care industry. We also establish credit limits, perform ongoing credit evaluation and monitor accounts to minimize the risk of loss. Notwithstanding our efforts to minimize credit risk exposure, our clients could be adversely affected if future industry trends change in such a manner as to negatively impact their cash flows. If our clients experience a negative impact in their cash flows, it would have a material adverse effect on our results of operations and financial condition.

At March 31, 2011, amounts due from our Major Client represented less than 1% of our accounts receivable balance. If such client changes its payment terms, it would increase our accounts receivable balance and have a material adverse effect on our cash flows and cash and cash equivalents.

Insurance Programs

We have a Paid Loss Retrospective Insurance Plan for general liability and workers' compensation insurance. Under these plans, pre-determined loss limits are arranged with an insurance company to limit both our per-occurrence cash outlay and annual insurance plan cost.

For workers' compensation, we record a reserve based on the present value of future payments, including an estimate of claims incurred but not reported, that are developed as a result of a review of our historical data and open claims. The present value of the payout is determined by applying an 8% discount factor against the estimated value of the claims over the estimated remaining pay-out period.

For general liability, we record a reserve for the estimated ultimate amounts to be paid for known claims. The estimated ultimate reserve amount recorded is derived from the estimated claim reserves provided by our insurance carrier reduced by an historical experience factor.

We regularly evaluate our claims' pay-out experience, present value factor and other factors related to the nature of specific claims in arriving at the basis for our accrued insurance claims' estimate. Our evaluation is based primarily on current information derived from reviewing our claims experience and industry trends. In the event that our claims experience and/or industry trends result in an unfavorable change, it would have an adverse effect on our results of operations and financial condition.

Table of Contents

Capital Expenditures

The level of capital expenditures is generally dependent on the number of new clients obtained. Such capital expenditures primarily consist of housekeeping equipment purchases, laundry and linen equipment installations, and computer hardware and software. Although we have no specific material commitments for capital expenditures through the end of calendar year 2011, we estimate that for the remainder of 2011 we will have capital expenditures of approximately \$1,000,000 to \$2,000,000 in connection with housekeeping equipment purchases and laundry and linen equipment installations in our clients' facilities, as well as expenditures relating to internal data processing hardware and software requirements. We believe that our cash from operations, existing cash and cash equivalents balance and credit line will be adequate for the foreseeable future to satisfy the needs of our operations and to fund our anticipated growth. However, should these sources not be sufficient, we would seek to obtain necessary working capital from such sources as long-term debt or equity financing.

Material Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements, other than our irrevocable standby letter of credit previously discussed.

Effects of Inflation

Although there can be no assurance thereof, we believe that in most instances we will be able to recover increases in costs attributable to inflation by passing through such cost increases to our clients.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

At March 31, 2011 and December 31, 2010, we had \$77,891,000 and \$83,129,000, respectively, in cash, cash equivalents and marketable securities. In accordance with U.S. GAAP, the fair value of all of our cash, cash equivalents and marketable securities is determined based on Level 1 or Level 2 inputs, which consist of quoted prices whose value is based upon quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. We place our cash investments in instruments that meet credit quality standards, as specified in our investment policy guidelines. Investments in both fixed rate and floating rate investments carry a degree of interest rate risk. Fixed rate securities may have their market value adversely impacted due to an increase in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or if there is a decline in the fair value of our investments.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports under the Securities Exchange Act of 1934 (the Exchange Act), such as this Form 10-Q, is reported in accordance with Securities and Exchange Commission (SEC) rules. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Based on their evaluation as of March 31, 2011, pursuant to Exchange Act Rule 13a-15(b), our management, including our Chief Executive Officer and Chief Financial Officer, believe our disclosure controls and procedures (as defined in Exchange Act 13a-15(e)) are effective.

In connection with the evaluation pursuant to Exchange Act Rule 13a-15(d) of our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) by our management, including our Chief Executive Officer and Chief Financial Officer, no changes during the quarter ended March 31, 2011, were identified that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Certifications

Certifications of the Principal Executive Officer and Principal Financial Officer regarding, among other items, disclosure controls and procedures are included as exhibits to this Form 10-Q.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

Not Applicable

ITEM 1A. Risk Factors

There has been no material change in the risk factors set forth in Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010.

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

None

ITEM 3. Defaults under Senior Securities.

Not Applicable

ITEM 4. (Removed and Reserved)

ITEM 5. Other Information.

- a) On January 6, 2011, certain executive officers and directors were granted stock options to purchase 94,000 shares, in the aggregate, at an exercise price equal to the then current fair market value of \$16.11 per share.

ITEM 6. Exhibits

- b) Exhibits

- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350
- 32.2 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

Table of Contents

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 thereunto duly authorized.

HEALTHCARE SERVICES GROUP,
INC.

April 25, 2011
Date

/s/ Daniel P. McCartney
DANIEL P. McCARTNEY,
Chief Executive Officer
(Principal Executive Officer)

April 25, 2011
Date

/s/ Richard W. Hudson
RICHARD W. HUDSON,
Chief Financial Officer and Secretary
(Principal Financial Officer)

-28-